THE HONORABLE CURTIS M. LOFTIS, JR.
State Treasurer

March 27, 2017

The Honorable Gary E. Clary
Chairman, Executive Subcommittee
Legislative Oversight Committee
402D Blatt Building
Columbia, SC 29201

Dear Chairman Clary:

We have carefully reviewed the Subcommittee's study of the State Treasurer's Office ("STO") dated March 7, 2017. It is apparent the Subcommittee has invested much time and attention to studying the STO, and we are pleased to report that we have begun implementing the agency internal operations recommendations.

As to the Subcommittee's recommendation regarding a written employee retention policy, we are also pleased to report that we have already begun preparing such a policy. We will be prepared to update the Subcommittee's staff on our progress and provide staff with the policy by the end of 2017.

We are also working to enhance our performance reports that will accurately summarize the returns on the State's various investment portfolios for the trailing 1, 3, 5, and 10 years. We will update the Subcommittee's staff on our progress and anticipate providing the requested performance reports on or before July 1, 2017.

With respect to the Investment Policy Statements, the Subcommittee requested the following documents from the STO on February 21, 2017:

> The Investment Policy Statements, for each of the last three years, which reflect the intended management of each investment portfolio through which the Treasurer's Office invests the assets of the state and local governments.

This Subcommittee also requested "any relevant, necessary context information."

In response, we provided the Subcommittee with three documents: (1) the South Carolina State Treasurer's Investment Portfolio Investment Policy Statement, Revised: December 30, 2016; (2) the South Carolina State Treasurer's Investment Portfolio Investment Policy Statement, Adopted: October 19, 2015; and (3) the 2013-14 South Carolina State Treasurer's Office Annual Investment Plan. These documents were prepared from larger historical source documents and were designed to be more concise and to provide contextual information requested by the Subcommittee.

As we reviewed the Subcommittee's study, we concluded the source documents may be helpful, as these historical source documents show the breadth and detail that the STO has undertaken in the past to consider, study, and develop effective investment plans and policies. To that end, enclosed are the following documents: (1) the Comprehensive Investment Policy for the South

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Carolina State Treasurer's Investment Portfolios, adopted October 19, 2015 and revised January 30, 2017; (2) the Comprehensive Investment Policy for the South Carolina State Treasurer's Investment Portfolios, October 19, 2015; and (3) the full 2013-14 South Carolina State Treasurer's Office Annual Investment Plan. These documents are comprehensive and include additional information and detail.

Since our appearance before the Subcommittee in August 2016, we are pleased to report the following information that is pertinent to the operations of the STO:

- An audit of the financial statements of the STO was completed by the accounting firm of Elliot Davis Decosimo, LLC in November 2016, and a copy of the audit report is enclosed and also available on the STO's website at http://osa.sc.gov/Reports/stateengagements/Documents/YearEnded2015/E1615.pdf
- An audit of the financial statements of the South Carolina Local Government Investment Pool (LGIP) was completed by The Hobbs Group, PA, certified public accountants, in September 2016, and a copy of the audit report is enclosed and also available on the STO's website at http://osa.sc.gov/Reports/stateengagements/Documents/YearEnded2016/E1616%20(Pool).pdf
- An annual report was completed by the audit firm of RSM US, LLP in September 2016 of the financial statements of the South Carolina Tuition Prepayment Program, and a copy of the annual report is enclosed and also available on the STO's website at http://treasurer.sc.gov/media/55039/SCTPP-Audited-Financials-2016.pdf
- An annual actuarial valuation of the South Carolina Tuition Prepayment Program Fund was completed by Actuarial Resources Corporation of GA in September 2016, and a copy of the actuarial valuation report is enclosed and also available on the STO's website at http://treasurer.sc.gov/media/55033/SCTPP-Actuarial-Report-2016.pdf
- The South Carolina Human Affairs Commission Annual Report to the General Assembly on the status of equal employment opportunity in South Carolina state government was completed in February 2017, and the portion of the report addressing the STO is enclosed.

In advance of the follow-up to be scheduled by the end of 2017, we will provide any additional updates, summaries, or relevant documents that we believe may be useful. If we can be of any further assistance, please advise.

Sincerely,

Signature Redacted

Curtis M. Loftis, Jr
State Treasurer

cc: The Honorable Laurie Slade Funderburk
The Honorable Wm. Weston J. Newton
The Honorable Robert Q. Williams
Committee Staff

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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.

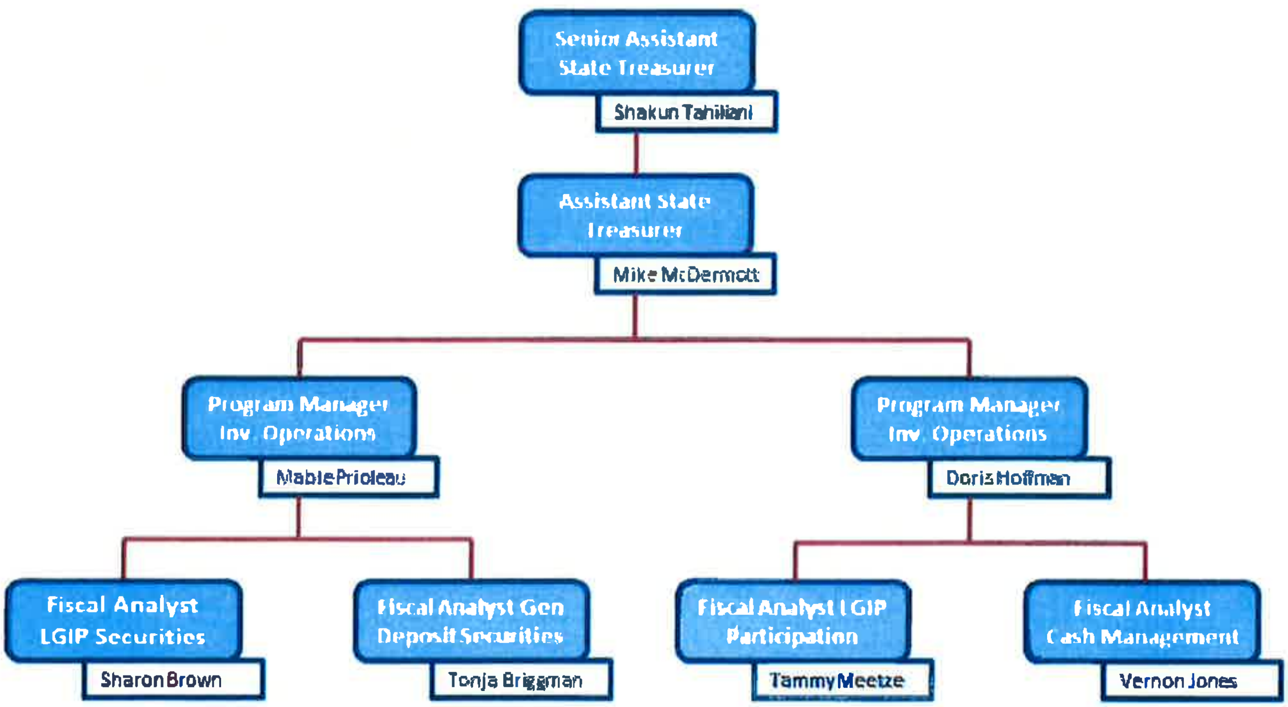
INVESTMENT MANAGEMENT DIVISION

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 - 3%*
~ Yankee		*0 - 3%*
~ 144a/Private		*0 - 3%*
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	53%	0 - 50%
US Agency	8%	0 - 20%
Credit	39%	10 - 20%
~ 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 - 3%*
~ 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		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/Suprntl		*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/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%*

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						
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*	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						
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 NARIET 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

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

FY 2014

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

Comprehensive Investment Policy

for the

SOUTH CAROLINA STATE TREASURER'S INVESTMENT PORTFOLIOS

State Treasurer's Office of South Carolina

October 19, 2015

FINAL

TABLE OF CONTENTS

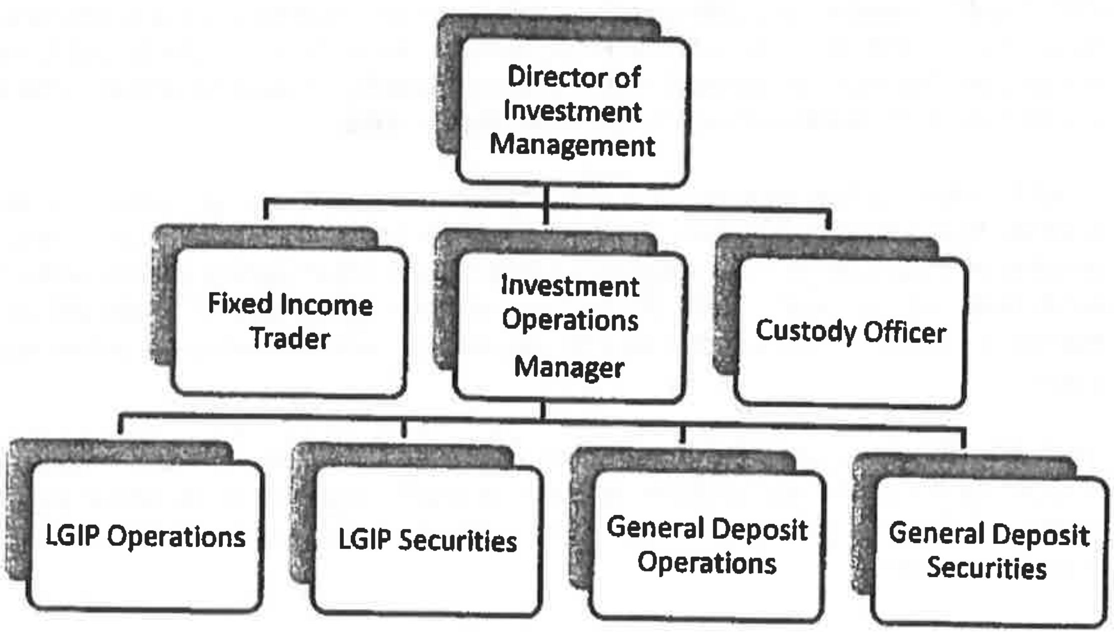
A. MISSION AND PURPOSE

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 PLAN (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.

<u>Attorney General's Opinion</u>

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 Plan (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 Immunized 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.

Immunized 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 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 Immunized 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 year	35% 90-day T-Bills 35% S&P US Commercial Paper 30% BC Short-term Govt/Credit
GF	State General Fund / General Deposit	Short/Intermediate bias	40% 90-day T-Bills 25% S&P US Commercial Paper 25% BC 1-3 Yr Govt/Credit 10% BC Aggregate
01	State Investment Pool / General Deposit	Medium-term bias	15% 90-day T-Bills 30% S&P US Commercial Paper 35% BC 1-3 Yr Govt/Credit 20% BC Aggregate
SB	Insurance Reserve Fund / General Deposit	Long-term bias	15% 90-day T-Bills 5% S&P US Commercial Paper 80% BC Aggregate
03	Long Term Pool / General Deposit	Long-term bias	10% 90-day T-Bills 90% BC Aggregate
HI	SC Retirement Health Insurance – OPEB	Long-term bias	20% 90-day T-Bills 5% S&P US Commercial Paper 75% BC Aggregate
DI	Long Term Disability Insurance – OPEB	Long-term bias	20% 90-day T-Bills 5% S&P US Commercial Paper 75% 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 in a separate document titled: SC STO Securities Lending Comprehensive Policy.

T. ADOPTION AND REVIEW OF COMPREHENSIVE INVESTMENT PLAN

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
Immunized	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:

- Immunized: Cash Deposits, Repurchase agreements, CDs, and T-bills.
- 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:

- 35% T-Bills,
- 35% S&P US Commercial Paper Index, and
- 30% 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.

<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 "Immunized 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, (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]	85%
i. Commercial Paper	60%
ii. Corporates[3]	45%
1. Private Placements[4]	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 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 CD's, and corporate bonds subject to individual manager guidelines.

[2] Including fixed and floating rate securities
[3] Including Floating Rate Notes, Yankee 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.

2. Weighted Average Maturity (WAM)

The weighted average maturity (WAM) of the portfolio will not exceed 60 days. For purposes of calculating WAM:

a. A variable rate security meeting the requirements listed above will be deemed to have a maturity equal to the period remaining to the next reset date, provided that on any reset date such security can be reasonably expected to have a market value that approximates its amortized costs; and

b. A floating rate security meeting the requirements listed above will be deemed to have a remaining maturity of one day, provided that at any time prior to maturity, such security can reasonably be expected to have a market value that approximates its amortized cost.

3. Weighted Average Life

The weighted average life (WAL) of the portfolio shall not exceed 120 days. For the purpose of calculating the WAL:

a. A variable rate security will be calculated using its final maturity; and

b. A floating rate security will be calculated using its final maturity.

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.

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 (Immunized 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
Immunized	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:

- Immunized: Cash Deposits, Repurchase agreements, CDs, and T-bills.
- 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:

- 40% T-Bills,
- 25% S&P US Commercial Paper Index,
- 25% BC 1-3 Year Government/Credit, and
- 10% BC 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

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 "Immunized 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, (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] 70%
      i. Commercial Paper 45%
      ii. Corporates[6] 45%
         i. Private Placements[7] 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.

[5] Including fixed and floating rate securities
[6] Including Floating Rate Notes, Yankee 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 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.*

<u>Investment Maturity</u>

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

<u>Repurchase Agreements</u>

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 (Immunized 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
Immunized	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:

- Immunized: Cash Deposited, Repurchase agreements, CDs, and T-bills.
- 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:

- 15% T-Bills,
- 30% S&P US Commercial Paper Index,
- 35% BC 1-3 Year Government/Credit Index, and
- 20% BC 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.

<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 "Immunized 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, (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] 70%
      i. Commercial Paper 45%
      ii. Corporates[9] 45%
         1. Private Placements[10] 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 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 CD's, and corporate bonds subject to individual manager guidelines.

[8] Including fixed and floating rate securities
[9] Including Floating Rate Notes, Yankee 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.

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 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 (Immunized 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
Immunized	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:

- Immunized: Deposited Cash, Repurchase agreements, CDs, and T-bills.
- 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:

- 15% T-Bills,
- 5% S&P US Commercial Paper Index, 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

<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, (iii) Government Agency discount notes that have remaining maturity of 60 days or less, (iv) commercial paper, and (v) 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] 75%
   i. Commercial Paper 45%
   ii. Corporates[12] 60%
      1. Private Placements[13] 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 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 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.*

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[11] Including fixed and floating rate securities
[12] Including Floating Rate Notes, Yankee 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 maturites 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 (Immunized 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
Immunized	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:

- Immunized: Deposited Cash, Repurchase agreements, CDs, and T-bills.
- 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:

- 10% T-Bills and
- 90%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.

<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, (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[14] 70%
      i. Commercial Paper 45%
      ii. Corporates[15] 45%
         1. Private Placements[16] 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 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 CD's, and corporate bonds subject to individual manager guidelines.

[14] Including fixed and floating rate securities
[15] Including Floating Rate Notes, Yankee 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:

<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 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 (Immunized 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
Immunized	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:

- Immunized: Deposited Cash, Repurchase agreements, CDs, and T-bills.
- 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,
- 5% S&P US Commercial Paper Index, and
- 75% 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.

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, (iii) Government Agency discount notes that have remaining maturity of 60 days or less, (iv) commercial paper, and (v) 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:

      i. Obligations issued or guaranteed by the U.S. government, U.S. agencies,

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

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 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 Intermediate Aggregate Index.

Maturity

The average maturity of the RHI Trust will be within ± 30 percent of the BC Intermediate 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 (Immunized 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
Immunized	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:

- Immunized: Repurchase agreements, CDs, and T-bills.
- 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,
- 5% S&P US Commercial Paper Index, and
- 75% 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

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, (iii) Government Agency discount notes that have remaining maturity of 60 days or less, (iv) commercial paper, and (v) 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 CD's, and corporate bonds subject to individual manager guidelines.

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

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

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.*

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-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 (Immunized 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
Immunized	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:

- Immunized: Repurchase agreements, CDs, and T-bills.
- Short Residual: Securities with a maturity of 3 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.

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, (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] 90%
      i. Commercial Paper 90%
      ii. Corporates[22] 45%

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 CD's, and corporate bonds subject to individual manager guidelines.

[21] Including fixed and floating rate securities
[22] Including Floating Rate Notes, Yankee 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 (Immunized 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
Immunized	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:

- Immunized: Deposited Cash, Repurchase Agreements, CDs, and T-bills.
- 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.

<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, (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] 70%
      i. Commercial Paper 45%
      ii. Corporates[24] 45%
         1. Private Placements[25] 2%

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, Yankees CD's, and corporate bonds subject to individual manager guidelines.

[23] Including fixed and floating rate securities
[24] Including Floating Rate Notes, Yankee 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. Investments are limited to Treasuries and/or full-faith- and -credit debt instruments only.

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 (Immunized 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
Immunized	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:

- Immunized: 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.

<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, (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.

(Approval on following page)
APPROVED:

Curtis M. Loftis Jr., State Treasurer

Nov 5, 2015

Effective Date

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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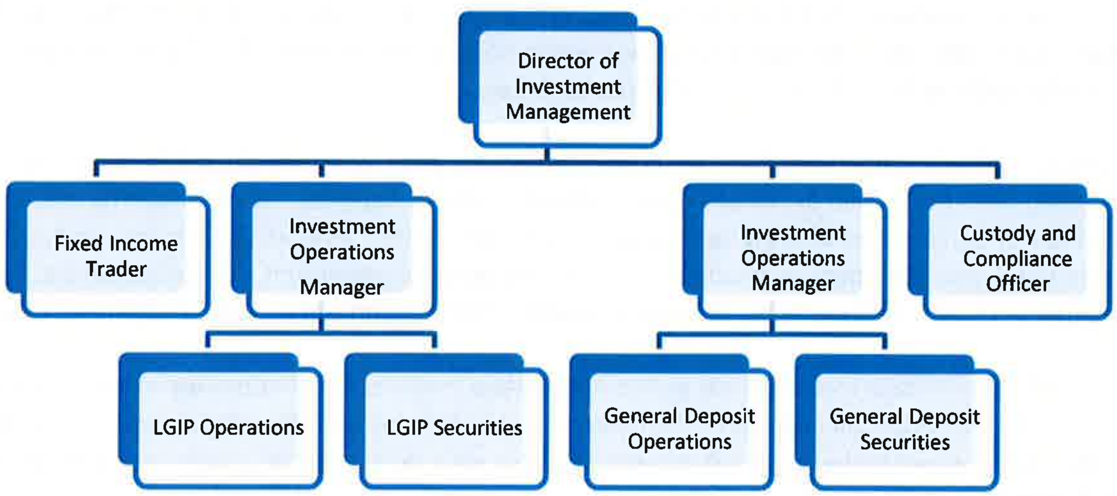
A. MISSION AND PURPOSE

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%.)

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[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%.)

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[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*.

<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-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%.)

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" – 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.

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[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%.)

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 "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:

<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 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*.

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-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.

<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. 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:

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

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

SCTPP Tuition Prepayment Program

The path to affordable higher education

Annual Actuarial Valuation of the South Carolina Tuition Prepayment Program Fund

June 30, 2016

Prepared by
John T. Condo, FSA, MAAA, Ph.D.
Actuarial Resources Corporation of GA

ACTUARIAL RESOURCES
CORPORATION
CONSULTANTS • ACTUARIES

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September 14, 2016

The Honorable Curtis M. Loftis, Jr.
Treasurer, State of South Carolina
118 Wade Hampton Building
Columbia, SC 29201

Dear Treasurer Loftis:

We have completed our actuarial analysis of the Fund ("the Fund") for the South Carolina Tuition Prepayment Program ("SCTPP" or "the Program") as of June 30, 2016. This report presents our findings with respect to the Fund's expected cash flows and the surplus/deficit position of the Fund. The analyses have been prepared in accordance with generally accepted actuarial principles and practices commonly applicable to similar types of arrangements.

Currently the expected value of liabilities is $125,660,173 and the value of assets is $82,392,324, for a difference of $43,267,849. The funded ratio is 65.6% of liabilities. For comparison purposes, in 2015 the deficit was $55,910,003 and the funded ratio was 62.8%. You should note that **the Fund is projected to run out of assets in the Fiscal Year beginning on July 1, 2022** unless remedial actions are taken.

SCTPP was created by the 1997 South Carolina General Assembly, and enrollment into the Program began in 1998. Since, 2001 the Fund has been operating with an actuarial deficit.

In making our projections, we have included the effects of the statutory limitation on benefits to Program participants to a maximum of seven percent annual increase. You should also note that we have not assumed any further sales of prepaid tuition contracts.

The results above are based on assumptions approved by SCTPP personnel after consultation with us.

* * * * * * *

We appreciate the opportunity to serve the State of South Carolina. Any questions about the report should be directed to me at (770) 752-5656.

Very truly yours,

John T. Condo, FSA, MAAA, Ph.D.
Vice President
Actuarial Resources Corporation

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I. EXECUTIVE SUMMARY

The following are the key findings of our analysis.

Adequacy of the Fund

The Fund's liabilities exceed its assets by $43,267,849. The key results are shown below.

Value as of June 30, 2016	Assets and Liabilities
Assets	
Investments	$80,375,573
Future Contract Payments	2,016,751
Total Assets	$82,392,324
Liabilities and Surplus	
Future Contract Benefits	$125,600,052
Other Liabilities	60,121
Total Liabilities	$125,660,173
Surplus	($43,267,849)
Total Liabilities and Surplus	$82,392,324
Funded Ratio	65.6%

Note: The above assets and liabilities are based on unaudited financial information. Audited balances are contained **in the Fund's Annual Report**.

From Last Year to This Year

The table below summarizes the change in the deficit from June 30, 2015 to June 30, 2016.

Progression of Surplus/(Deficit)	
Surplus at June 30, 2015	($ 55,910,003)
Projected Change to June 30, 2016	(1,458,620)
Gain From Favorable Investment Experience	503,467
Gain Due to Favorable Tuition Inflation	4,393,914
Gain Due to Change in Assumptions	8,976,688
All Other Experience Items	226,705
Surplus at June 30, 2016	($ 43,267,849)

Implications of the Deficit

SCTPP was created by the 1997 South Carolina General Assembly, and enrollment into the Program began in 1998. Since, 2001 the Fund has been operating with an actuarial deficit. SCTPP has not accepted new entrants into the program since 2006. The South Carolina General Assembly indefinitely closed the Program to new enrollment in 2008 **due to the Fund's actuarial deficit.**

The existing deficit is an indicator that existing assets combined with future cash flows are insufficient to pay all contract owners their benefits. We project that assets will be depleted in the Fiscal Year beginning on July 1, 2022. Unless remedial action is taken, the Program will be unable to pay benefits.

Remedial actions may include, but are not limited to the following:

1. Shut down the Program. This will require the refund of unused contributions on a return of premium basis. As of June 30, 2016 this liability was $86.0 million. If the Program is shut down at June 30, 2017, we project that the liability will be $85.6 million. We project assets to be $69.1 million, so that we are projecting that the State would need to refund $16.5 million from the General Fund.
2. Shut down the Program on September 30 2022 when the Program is projected to run out of assets. This would require the refund of unused contributions on a return of

premium basis, which we project to be $52.1 million. This would require that the entire amount be paid from the General Fund.

3. Provide additional appropriations annually beginning at the time of asset depletion to pay the contractual benefit. The estimated total cost to pay these benefits is $8.7 million annually beginning in September 2022 (immediately before asset depletion) continuing until all benefits are projected to be paid. Total additional appropriations would be $52,200,000.
4. Scenario 3, immediately above, allows for assets to be depleted at interim dates since cash out-flows are greater than $8.7 million dollars in the early years. A similar scenario that provides non-level appropriations such that assets are projected never to be depleted is shown immediately below. The total appropriations for this scenario are $50,180,000.
   - September 2022: $27.33 million
   - September 2023: $ 8.81 million
   - September 2024: $ 6.48 million
   - September 2025: $ 4.41 million
   - September 2026: $ 2.31 million
   - September 2027: $ 0.84 million
5. Provide an additional appropriation now to offset the deficit. We are projecting that a lump-sum appropriation of $43.7 million in December 2016 would offset the deficit, if all actuarial assumptions are realized.
6. Provide an additional appropriation at the time of asset depletion to offset the deficit. We are projecting that a lump-sum appropriation of $49.3 million in September 2022 would offset the deficit if all actuarial assumptions are realized.
7. Provide a series of annual appropriations until asset depletion. We project that annual appropriations of $6.60 million beginning September 2016 and ending September 2022 would offset the deficit if all actuarial assumptions are realized. This is a total appropriation of $46,200,000.
8. Provide a series of annual appropriations until all liabilities are mature in February 2028. (As in Scenario 3, assets may depleted at interim dates.) We project that these amounts would be:
   - $7.66 million, if begun at December 2016 for a total of $45,960,000;
   - $9.29 million, if begun at December 2017 for a total of $46,450,000;
   - $11.74 million, if begun at December 2018 for a total of $46,960,000

Investment Strategy

As of June 30, 2015, the investment strategy of SCTPP migrated to 100% duration matched fixed income assets. The State Treasurer's Office, with the assistance of the Program advisors, has adopted this strategy to better match the fund's assets and liabilities in order to manage the Fund's long-standing actuarial deficit in an effort to preserve existing assets. The portfolio was revised in part to lower risk by eliminating equity holdings and investing in high quality fixed income assets which provide cash flows which better match liability payments. The strategy is based on the recommendation of Columbia Management Investment Advisers, LLC which assumed investment management of the Fund assets on October 2012 and the approval of the fund's investment advisor, Pension Consulting Alliance.

Actuarial Resources Corporation of Georgia has not reviewed the strategy nor are we expressing an opinion on the strategy.

Key economic assumptions are listed below. The assumption for future investment returns is based on the recommendation of Columbia Management Investment Advisers, LLC and Pension Consulting Alliance after considering the likely returns of the SCTPP Portfolio and reviewing with the Actuarial Resources Corporation of Georgia and the State Treasurer's Office.

Key Assumptions	
Return on Investments (net of expenses)	
All future years	2.10%
Asset Allocation	
Fixed Income	100.00%
Tuition Inflation	
All future years	5.5%
Bias Load	
All years	3.0%

For this year's report, our office, Columbia Management Investment Advisers, LLC, Pension Consulting Alliance and the State Treasurer's Office, reviewed all major assumptions. Consequently, the expected tuition inflation was decreased from 7% per year to 5.5%, contracts are now assumed to be utilized for 5 years after matriculation instead of 4, the investment return assumption is decreased from 2.2% to 2.1%, and contracts which have sat idle well past their planned matriculation dates are valued on a return of premium basis. In all previous years, it was assumed these contracts would begin usage immediately after the valuation date.

II. RELIANCES & ACTUARIAL STANDARDS

In making the projections on which this report is based, we relied on the following information supplied to us as indicated below.

- Tuition and fee amounts at South Carolina public institutions of post-secondary education, supplied by InTuition Solutions, Inc., and reviewed by the Office of the State Treasurer;
- Headcount at South Carolina public institutions of post-secondary education, supplied by the Office of the State Treasurer;
- Market value of assets of the Program's trust fund, supplied by Columbia Management Investment Advisers, LLC;
- Inventory of Program contracts, supplied by InTuition Solutions, Inc., the Program's records administrator; and
- Assumptions regarding future investment returns on the Program's trust fund, supplied by the Office of the State Treasurer and Columbia Management Investment Advisers, LLC.

There are no actuarial standards of practice that apply specifically to prepaid tuition plans. However, there are two general standards that we believe apply:

- Actuarial Standard of Practice #23 "Data Quality". This standard sets guidelines on review of data supplied by a third party. We have performed reasonableness and consistency checks on the data supplied to us by personnel of the Program and by the records administrator, and are in compliance with this standard. Our review of the data was not an audit of the data.
- Actuarial Standard of Practice #41 "Actuarial Communications". This standard sets general guidelines for actuarial communications. This report is in compliance with this standard.

III. DESCRIPTION OF THE PROGRAM

The Program was created in 1997 by the South Carolina Legislature to "...assist the citizens of South Carolina with the expense of college by providing an advanced payment program for tuition at a fixed and guaranteed level for public colleges and universities." The Office of the South Carolina State Treasurer administers the Program.

Since, 2001 the Fund has been operating with an actuarial deficit. SCTPP has not accepted new entrants since 2006. The South Carolina General Assembly indefinitely closed the Program to new enrollment in 2008 due to the Fund's actuarial deficit.

The Program is summarized below. This summary is provided for explanation purposes only, and the Program will be governed by the provisions of the enabling legislation and State Treasurer's Office procedures. The General Assembly passed the legislation below which was effective July 1, 2008.

S.75 (Rat #0296, Act #0246 of 2008)
Section 59-4-110
(A) Notwithstanding another provision of law, the South Carolina Tuition Prepayment Program may not accept new participants until the General Assembly authorizes the program to accept new participants by joint resolution.
(B) This section does not affect the existing participants in the program, and the South Carolina Tuition Prepayment Program remains in full operation for this purpose.
Section 59-4-120

Types of Contracts

Existing contracts are comprised of two types. Both types provide for tuition and mandatory fees imposed by public higher education institutions in the State of South Carolina.

The four-year college/university contract provides for up to eight semesters of tuition and fees at any accredited senior higher education institution. The benefits provided for under this contract may also be used to provide for junior college tuition and fees or a combination of junior and senior college tuition and fees.

The two-year college/university contract provides for up to four semesters of tuition and fees at any accredited senior higher education institution. The benefits provided for under this contract may also be used to provide for junior college tuition and fees or a combination of junior and senior college tuition and fees.

Types of Contract Payment Options

There are three payment options for existing contracts:

- Lump-sum payments;
- 48 monthly installment payments; and
- Extended payments, which are monthly installment payments that run until the year of anticipated matriculation of the beneficiary.

Refunds

If the beneficiary dies or becomes disabled, monies paid for the purchase of a tuition prepayment contract shall be returned to the contributor in lump sum to include the lesser of the total of contract contributions plus the compounded rate of return earned by the Fund or the current Weighted Average. Applicable interest is determined by the State Treasurer's Office on a year-to-year basis.

If the beneficiary is awarded a scholarship, monies paid for the purchase of a tuition prepayment contract shall be returned on a pro-rata basis to the contributor in semester installments coinciding with the matriculation by the beneficiary in amounts equal to the lesser of the original purchase price plus the compounded rate or return earned by the Fund or the current Weighted Average Tuition.

Rollovers to the South Carolina Future Scholar 529 College Savings Plan receive a refund equal to contract payments accumulated at 2% interest per year.

Voluntary terminations receive a refund equal to contract payments accumulated at 2% interest per year, less a deduction of the lesser of $150 or 50% of the sum of all payments, not including administrative fees, minus any amounts paid as benefits by the Fund.

Involuntary terminations receive a refund equal to contract payments accumulated at 2% interest per year, less a deduction of the lesser of $150 or 50% of the sum of all payments, not including administrative fees, minus any amounts paid as benefits by the Fund.

Change of Beneficiary

Generally, a contract owner can change the beneficiary at any time provided that the new beneficiary is the same age or younger than the original beneficiary, and is a member of the current beneficiary's immediate family.

Age Limit on Benefits

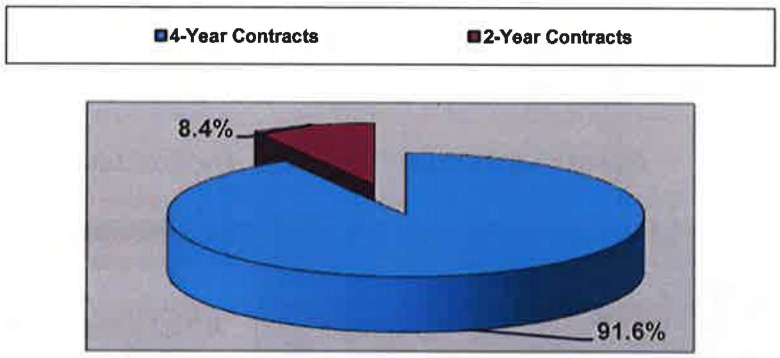
Benefits are available until the beneficiary is age 30. This limit may be extended to age 34 if the beneficiary has military service.

IV. SUMMARY OF CONTRACT DATA AND CURRENT ASSETS

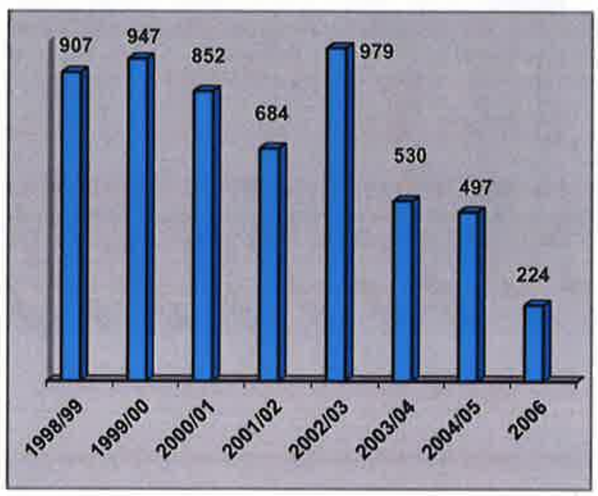
Contract Data

Data on the number of outstanding contracts and contributions were provided by InTuition, Inc., the Program's records administrator. The graphs below summarize the data provided concerning these contracts.

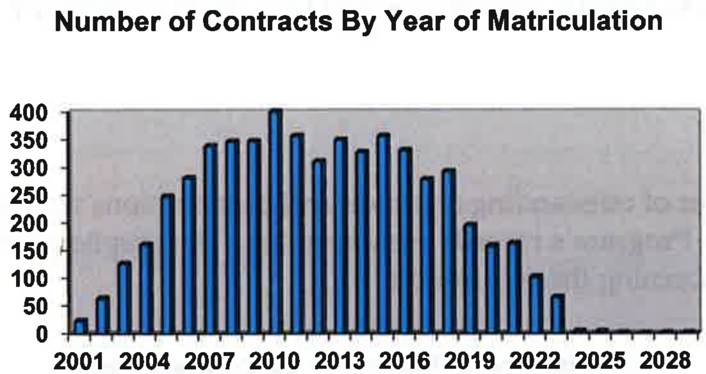
Distribution of Contracts by Contract Type



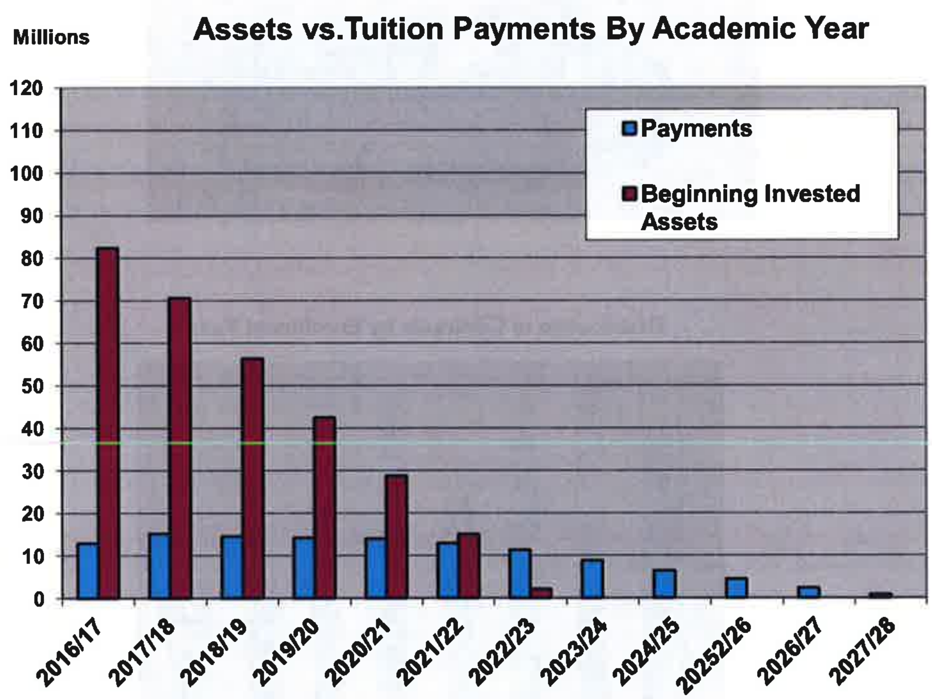
Distribution of Contracts by Enrollment Year



Note: The Program has not accepted new entrants since 2006. In 2008, the General Assembly closed the program to new entrants indefinitely as a result of the actuarial deficit.



The benefit payments for tuition generated by these contracts are shown in the chart and table immediately following.



Assets vs. Tuition Payments By Academic Year Amounts in $ millions		
Year	Assets	Payments
2016/17	82.4	12.9
2017/18	70.6	15.2
2018/19	56.4	14.6
2019/20	42.5	14.2
2020/21	28.8	14.0
2021/22	15.0	12.9
2022/23		11.3
2023/24		8.8
2024/25		6.5
2025/26		4.4
2026/27		2.3
2027/28		0.8

Current Assets

As of June 30, 2016 the Program's assets were deployed 100% in duration matched fixed income assets.

Fund Investments

The market value of Program assets is shown in the table below.

Market value of assets held as of June 30, 2016		
	Amount	% Of Total
Fixed Income	80,375,573	100.00%

V. ACTUARIAL METHODS AND ASSUMPTIONS

Methods

The actuarial method for the determination of the adequacy of the Fund consists of projecting future tuition rates based on the average anticipated number of contracts and future utilization of contracts. Future benefits are discounted using the assumed investment yield as the interest discount rate. The assumed discount rate is based on the current and anticipated mix of assets of the Fund.

For the projection of future benefits, the analysis proceeds as follows:

- Project future tuition rates for all years under consideration. Future tuition is based on the assumptions for tuition inflation.
- Determine the nominal cost of future benefit payments.
- Determine the nominal value of future contract payments.
- Determine the present value of future contract benefits, future expenses and future revenue based on the investment yield assumptions.
- Perform projections for all of the Program's beneficiaries to determine if the Fund is adequate in the aggregate.
- In making our projections of the surplus, we assume that the Program will not sell any more contracts. This is a conservative limitation that provides a static "snapshot view" of the Program as of June 30, 2016.

Assumptions

Actuarial assumptions used to determine financial soundness of programs are of two general types: economic and demographic. Demographic assumptions determine the expected exposure to financial claims and generally answer the question "How and when will people use their contractual benefits?" Economic assumptions are concerned with the expected level of benefit usage and answer the question "What is the expected value of benefit usage?" The assumptions that we used were those that were approved by the South Carolina Treasurer's Office, after consultation with us.

Economic Assumptions

Economic assumptions are used to estimate the annual tuition rates at two- and four-year colleges, increases in Fund expenses, and Fund earnings on assets invested. Because inflation is a major component of the rate of increase in tuition rates and of investment returns, we considered these rates together. We believe that the difference in these rates is more important than the absolute level of the rates. The following paragraphs describe the economic assumptions used in this study.

Income Tax

We assumed that Fund earnings are exempt from Federal and State Income Tax.

Annual Tuition Rates and Bias Load

Our assumptions were guided by our observations of historic tuition increases, trends in post secondary enrollment in South Carolina and the level of legislative appropriations for post secondary schools in South Carolina.

The Bias Load assumption accounts for Program enrollment at institutions that are more expensive than the Weighted Average Tuition. The choice of this assumption was based on a review of Program experience and what we have seen in other prepaid tuition programs.

The assumptions for tuition inflation and bias load are shown in the table immediately below.

Tuition Inflation	
All future years	5.5%
Bias Load	
All Years	3.0%

The tuition inflation assumption for those attending public universities in South Carolina is based on the statutory limit on benefit increases for Program beneficiaries.

Fund Earnings Rate

In setting our assumptions for the yield on assets, we relied on input from the State Treasurer's Office personnel and their investment advisor Pension Consulting Alliance, and Columbia Management Investment Advisers, LLC.

Our investment yield assumption (net of investment expenses) is:

2.10% for all future years.

The assumption for yield on future investment returns is based on the recommendation of Columbia Management Investment Advisers, LLC and Pension Consulting Alliance after considering the likely returns of the SCTPP Portfolio and reviewing with Actuarial Resources Corporation of Georgia and the State Treasurer's Office.

The State Treasurer annually informs the State Legislature of the Program's funded status by letter. A letter was sent to the State Legislature in December 2015 with a copy of the 2015 SCTPP Actuarial Report and an update on the unfunded liability.

In conjunction with Columbia Management Investment Advisers, LLC, Pension Consulting Alliance and Actuarial Resources Corporation of Georgia, the State Treasurer's Office reviews the investment return assumption annually. Although we do not expect the Fund to realize this exact rate in any year, we believe it represents a reasonable earnings rate over the time horizon of this report. In some years the Fund will have yields in excess of the assumed rate, while in other years the Fund will earn less than this rate.

Demographic Assumptions

The demographic assumptions used in this report are based on our experience with similar types of liabilities. Our choice of assumptions is based on recent experience and our best estimates as to future events. These assumptions are as follows:

Mortality and Disability

We assumed that there would be no terminations due to death or disability.

At-Will Termination of Contract

Our projections include assumptions regarding voluntary termination of contracts prior to matriculation. These assumptions vary by payment type and by number of years from contract purchase. These assumptions are shown in the following table.

	Lump Sum	**48 Monthly Payments**	**Extended Payments**
Year of purchase	2.0%	5.0%	8.0%
Year of purchase+1	2.0%	4.0%	7.0%
Year of purchase+2	2.0%	3.0%	6.0%
Year of purchase+3	1.5%	2.0%	5.0%
Year of purchase+4	1.5%	1.0%	4.0%
Year of purchase+5	1.5%	1.0%	3.0%
Year of purchase+6	1.5%	1.0%	2.0%
Year of purchase+7	1.0%	1.0%	2.0%
Year of purchase+8	1.0%	1.0%	2.0%
Thereafter	1.0%	1.0%	1.0%

Matriculation Percent

All beneficiaries are assumed to matriculate at the matriculation date specified in the application, except for those who are projected to terminate.

Utilization of Benefits

Four-year contract beneficiaries are assumed to use their benefits ratably over five years, while two-year contract beneficiaries are assumed to use their benefits ratably over two years. However, for contracts which are past their anticipated matriculation date, but have not used any benefits, all benefits are projected to be used completely over the next two years.

We believe that this is a reasonable assumption since experience at other prepaid tuition programs, and universities in general, indicates that the average student takes somewhat longer than four years to complete a four-year degree.

Dropout Rate

All beneficiaries are assumed to use 100% of their contractual benefits once they have enrolled in college.

Frequency of Beneficiary Replacement

Since all surviving beneficiaries are expected to matriculate and are expected to use their benefits until completion, the assumption is made that no replacement of beneficiaries will occur.

VI. ADEQUACY OF THE FUND AS OF JUNE 30, 2016

In determining the adequacy of the Fund, we estimated the future disbursements for higher education expenses of beneficiaries, expenses and refunds for terminated contracts. We also projected the future assets based on current assets and expected earnings on assets. We believe these estimates are reasonable based on the information available and our past experience and judgment.

The estimates of the prospective assets and liabilities of the Fund are summarized in the table on the following page and demonstrate the financial position of the Fund. The value of all assets is $82,392,324 while the expected value of all liabilities is $125,660,173. The expected present value of the excess of liabilities over assets is $43,267,849. This compares to the prior year's deficit of $55,910,003.

The deficit will change from year to year due to positive and negative cash flows and due to the change in the present value of future benefit usage because of the passage of time. The deficit will also change due to the variance of experience from the assumptions. These variances include tuition increases and investment income.

The deficit will also change due to the updating of the assumptions to reflect the Program's emerging experience. The changes for the year ending June 30, 2016 are summarized in the table below.

Progression of Surplus/(Deficit)	
Surplus at June 30, 2015	($ 55,910,003)
Projected Change to June 30, 2016	(1,458,620)
Gain From Favorable Investment Experience	503,467
Gain Due to Favorable Tuition Inflation	4,393,914
Gain Due to Change in Assumptions	8,976,688
All Other Experience Items	226,705
Surplus at June 30, 2016	($ 43,267,849)

In the following chart we show the value of expected future benefit usage, expected future payments, current assets and expected surplus as of the end of each future year for contracts in place as of June 30, 2016. Note that existing assets are projected to be sufficient to meet future liabilities through 2020.

PRESENT VALUE OF ASSETS AND LIABILITIES

Fiscal Year Ending	Value of Assets	Present Value of Future Benefits	Surplus/ (Deficit)
2016	82,392,324	125,600,052	(43,207,728)
2017	70,595,273	114,909,200	(44,313,927)
2018	56,360,217	101,577,492	(45,217,275)
2019	42,484,202	88,624,936	(46,140,734)
2020	28,757,936	75,842,286	(47,084,350)
2021	15,033,741	63,082,026	(48,048,285)
2022	2,143,537	51,177,945	(49,034,408)
2023	(27,736,491)	22,275,768	(50,012,259)
2024	(37,277,550)	13,769,438	(51,046,988)
2025	(44,650,755)	7,456,797	(52,107,551)
2026	(50,069,580)	3,124,462	(53,194,042)
2027	(53,468,781)	838,266	(54,307,048)
2028	(55,446,015)	0	(55,446,015)

VII. CHANGES IN ACTUARIAL ASSUMPTIONS

This year, all major assumptions were reviewed. Consequently, the expected tuition inflation was decreased from 7% per year to 5.5%, contracts are now assumed to be utilized for 5 years after matriculation instead of 4, the investment return assumption is decreased from 2.2% to 2.1%, and contracts which have sat idle well past their planned matriculation dates are valued on a return of premium basis. In all previous years, it was assumed these contracts would begin usage immediately after the valuation date.

Decreased Tuition Inflation

The average tuition inflation over the last 5 years and over the last ten years is less than 4% per year. To more accurately reflect this while maintaining an element of conservatism, the expected inflation was reduced from 7% to 5.5% per year.

5 Year Utilization of Contracts

Actual SCTPP cash flows consistently showed projected cash flows to be excessive. An analysis of contract usage indicated that a major reason for this was contracts were not always used in the first 4 years post-matriculation. As a result, the 4 year usage assumption has been changed to 5 years.

Change in Investment Return

The investment return assumption was modestly adjusted from 2.2% to 2.1%.

Current Assumption	Prior Assumption
2.10%	2.20%

Valuing Idle Contracts on a Return of Premium Basis

An experience study of contract usage showed that many contracts have never been used even though they are well past the planned matriculation dates. Additionally, many contracts that have not been used for several years still have available tuition credits. As these contracts will likely never be used, they are now valued on a return of premium basis (the same as other contract terminations).

Dollar Effect of Change in Assumptions

If assumptions had been the same as last year, the Plan's deficit would have been

($52,244,537)

These changes reduced the deficit by $8,976,688.

The components of the change are:

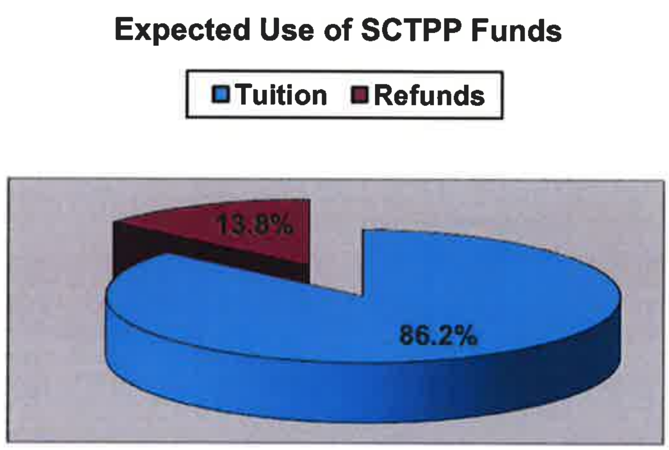
- Change in Tuition Inflation $ 5,369,599 improvement of results
- Change in Contract Utilization $ 1,731,066 worsening of results
- Change in Investment Return $ 467,219 worsening of results
- Return of Premium on Idle Contracts $ 5,805,374 improvement of results

VIII. EXPECTED USE OF FUNDS

The Fund is expected to pay benefits and expenses in the following proportions:

- Tuition payments - 86.2%
- Payments of refunds to contract owners – 13.8%

These results are shown graphically below.



State of South Carolina
Office of the State Treasurer

SCTPP Tuition Prepayment Program

The path to affordable higher education

Annual Report
For the Year Ended June 30, 2016

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Management's Discussion and Analysis (unaudited)

As program manager of the South Carolina Tuition Prepayment Program (the "Program"), Columbia Management Investment Advisers, LLC and Columbia Management Investment Distributors, Inc. (collectively, "Columbia" or the "Program Manager"), each a wholly-owned subsidiary of Ameriprise Financial, Inc., are responsible for the day-to-day operations of the Program, including providing certain investment management and administrative services to the Program.

Program Overview
The Program is part of the South Carolina College Investment Trust Fund (the "Trust Fund") and was established by the South Carolina General Assembly (the "Assembly") as a way to provide a tax-advantaged method to prepay future higher education expenses of designated beneficiaries at eligible educational institutions. The Program was established to assist the citizens of South Carolina with the expense of college by providing an advanced payment program for tuition at a fixed and guaranteed level for public colleges and universities. Operations of the Program began in 1998 with the initial enrollment period commencing on September 14, 1998.

The Program's last open enrollment period lasted from March 2006 through May 2006. Effective July 1, 2008, the Assembly closed the Program to new enrollment. Closing the Program to new enrollment did not affect existing participants in the Program and the Program remains in full operation. At June 30, 2016, contract holders continue to pay any amounts due, including monthly installments, penalties and fees, and the Program continues to pay all benefits due.

The Office of the State Treasurer of South Carolina (the "Treasurer") is responsible for administering the Program and effective October 1, 2012, selected Columbia to serve as the Program Manager. Prior to October 1, 2012, the Program was managed by the Treasurer.

Financial Highlights
During the year ended June 30, 2016, the Program received \$0.8 million in contract contributions and paid \$14.1 million in contract benefits.

As of June 30, 2016, the Program's liabilities (primarily consisting of discounted future tuition payments) exceeded its assets by approximately \$43.3 million, resulting in a net deficit. The net deficit decreased from \$55.9 million at June 30, 2015, primarily as a result of a net decrease in operating expenses of \$10.5 million, which consists of contract benefit payments and a decrease in the actuarial value of future contract benefit payments, as well as a net investment gain of \$2.2 million.

The financial statements present only the Program, and do not purport to, and do not, present the net position or activity of the Trust Fund or the State of South Carolina.

Overview of the Financial Statements
The Program's financial statements are prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Government*, as amended. The activities of the Program are accounted for as an enterprise fund. As an

Management's Discussion and Analysis (continued) (unaudited)

enterprise fund, the financial statements of the Program are presented on the flow of economic resources measurement focus and accrual basis accounting in conformity with accounting principles generally accepted in the United States of America.

The State of South Carolina reports the Program as a nonmajor enterprise fund in its Comprehensive Annual Financial Report ("CAFR"). Enterprise fund reporting is used to report the functions of a governmental entity with business-type activities in which a fee is charged to external users for goods and services.

This report consists of two parts: management's discussion and analysis (this section) and the basic financial statements. The basic financial statements are composed of a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; a Statement of Cash Flows and Notes to Financial Statements.

The Statement of Net Position presents information on the Program's assets and liabilities, with the difference reported as net position (deficit). This statement is categorized into current and non-current assets and liabilities. For purposes of the financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity or which are collectible or becoming due within 12 months of the statement's date.

The Statement of Revenues, Expenses and Changes in Net Position reflects the operating and non-operating revenues and expenses for the operating year. Operating revenues and expenses generally result from providing services in connection with the enterprise fund's principal ongoing operations. The principal operating revenues and expenses relate to tuition contract revenues and tuition benefit payments. Investment activity and program management fees are reported as non-operating activities.

The Statement of Cash Flows is presented on the direct method of reporting, which reflects the enterprise fund's cash flows from operating and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash and cash equivalents during the year.

The Notes to Financial Statements provide additional information and explanations that are integral to a full understanding of the data provided in the basic financial statements.

Financial Analysis

Net Position. The following is a condensed Statement of Net Position for the Program as of June 30, 2016 and June 30, 2015.

	2016	2015
Current assets	$ 81,355,651	$ 92,391,718
Noncurrent assets	1,438,265	2,053,640
Total assets	82,793,916	94,445,358
Current liabilities	13,710,621	26,302,195
Noncurrent liabilities	112,350,993	124,049,471
Total liabilities	126,061,614	150,351,666
Net position (deficit)	$ (43,267,698)	$ (55,906,308)

State of South Carolina
Office of the State Treasurer
South Carolina Tuition Prepayment Program

Management's Discussion and Analysis (continued) (unaudited)

Net position (deficit) decreased by approximately $12.6 million or 22.6%. Net position is the excess of total assets over total liabilities and a net (deficit) occurs when liabilities exceed assets. The decrease in the net (deficit) is primarily attributable to net investment gain and a decrease in projected contract benefit payments. Although the deficit decreased during the year, the Program is still in a significant deficit position.

Based on the financial statements, the funded status (assets divided by liabilities) of the Program is 65.7% at June 30, 2016, compared to 62.8% at June 30, 2015. The funded status represents the Program's ability to fund payment of its liabilities as of the date on which the value of the assets and liabilities are measured. The Treasurer is evaluating the implications of the deficit on the ongoing operations of the Program. In the event that remedial actions are not taken by the Assembly, the Program is projected to run out of assets in the fiscal year beginning on July 1, 2022. If the State determines that the Program is no longer fiscally or actuarially sound, the State may discontinue the Program and cancel all tuition prepayment contracts.

Statement of Revenues, Expenses and Changes in Net Position.

The following is a condensed Statement of Revenues, Expenses and Changes in Net Position for the years ended June 30, 2016 and June 30, 2015:

	2016	2015
Operating revenues:		
Tuition contracts	$ 61,236	$ 31,579
Operating expenses:		
Tuition benefits	(10,542,678)	(864,251)
Operating income	10,603,914	895,830
Non-operating revenues (expenses):		
Net investment gain	2,289,614	920,619
Program management fees	(254,918)	(292,214)
Total non-operating revenues	2,034,696	628,405
Change in net position	12,638,610	1,524,235
Net position (deficit), beginning of year	(55,906,308)	(57,430,543)
Net position (deficit), end of year	$(43,267,698)	$(55,906,308)

Operating revenues reflect contract payments received and the effect of discounting future contract payments receivable. Operating expenses reflect contract benefits paid and the effect of discounting future contract benefits payable.

Management's Discussion and Analysis (continued) (unaudited)

Effective July 1, 2008, the Assembly closed the Program to new enrollment and as a result, no new contracts have been sold since that time.

Net investment gain consists of investment income (interest and dividends accrued from Program investments), net realized gain (loss) and the change in fair value of investments during the year.

Economic Factors

The actuarial valuation of tuition contracts receivable and the accrued contract benefits liability as of June 30, 2016 is based on various actuarial assumptions. Key assumptions include a tuition inflation assumption of 5.5%, which is based on the statutory limit on benefit increases for Program beneficiaries. The rate decreased from 7.0% for those attending South Carolina's public universities and 8.0% for all other universities as of June 30, 2015. The change decreased the future contract benefits by approximately $5.4 million.

From October 1, 2012 through December 2013, the Program's targeted investment allocation was approximately 34% to equity, fixed income and alternative asset classes and 66% to a fixed income portfolio. The Program's fixed income portfolio follows an immunized, liability driven investment ("LDI") strategy, where the LDI investments are managed based on the cash flows needed to fund expected future liabilities. The LDI investments are structured in such a way that value increases/decreases in conjunction with increases/decreases in the value of liabilities due to changes in interest rates. As the Program approaches its projected asset depletion date in 2022, the allocation to LDI increases in order to reduce funded status volatility. As a result, the Program's LDI allocation increased to 80% in December 2013, 90% in November 2014 and 100% in February 2015.

Changes in long-term actuarial assumptions and actual experience can have a significant impact on the Program's projected assets and liabilities. The Program Manager, Treasurer and its investment consultant review the assumptions annually. The actuarial assumption for the long-term investment rate of return and discount rate is 2.1% annually, net of expenses. The rate decreased from 2.2% as of June 30, 2015. This change increased discounted future contract benefits by approximately $0.47 million.

As discussed in Note 8 and Note 9 of the financial statements, the Program has a net deficit of ($43.3) million. Each year, the Treasurer notifies the Assembly of the implications of the deficit on the ongoing operations of the Program, with various remedial actions for funding as reported in the Program's annual actuarial valuation. Additional funding requires approval of the Assembly.

If the State determines that the Program is no longer fiscally or actuarially sound, the State may discontinue the Program and cancel all tuition prepayment contracts. In this instance, the State will determine the level of refunds dependent upon available monies in the Program, as described in the Program's Master Agreement. In general, unused contributions shall be refunded, less certain administrative expenses, plus interest on these contributions from the date payment is made at the rate of at least 4% per annum.

Any act or undertaking of the Program shall not constitute a debt of the State or any agency, department, institution, or political subdivision, or a pledge of the full faith and credit of the State or any agency, department,

Management's Discussion and Analysis (continued) (unaudited)

institution, or political subdivision, but is payable solely from the Program. The Program deficit is also not an obligation of the Program Manager.

Requests for Information

The financial report is designed to provide a general overview of the Program's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Office of the State Treasurer, South Carolina Tuition Prepayment Program, P.O. Box 11778, Columbia, SC 29211.

RSM

Independent Auditor's Report

To the Office of the State Treasurer of the State of South Carolina:

Report on the Financial Statements

We have audited the accompanying financial statements of the South Carolina Tuition Prepayment Program, which comprise the statement of net position as of June 30, 2016, the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Carolina Tuition Prepayment Program as of June 30, 2016, and the changes in is financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements present only the South Carolina Tuition Prepayment Program administered by the Office of the State Treasurer, and do not purport to, and do not, present fairly the financial position of the State of South Carolina, or the Office of the South Carolina State Treasurer as of June 30, 2016, the changes in their financial positions, or, where applicable their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Also, as discussed in Notes 8 and 9, the South Carolina Tuition Prepayment Program has a deficit as of June 30, 2016 of $43.3 million. The amount of the reported deficit is highly dependent on the actuarial assumptions used to calculate the actuarial present value of future tuition benefit obligations. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1-5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2016 on our consideration of the South Carolina Tuition Prepayment Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Carolina Tuition Prepayment Program's internal control over financial reporting and compliance.

RSM US LLP

Boston, Massachusetts
September 26, 2016

State of South Carolina
Office of the State Treasurer
South Carolina Tuition Prepayment Program
Statement of Net Position
June 30, 2016

Assets	
Current assets	
Investments	$ 79,107,202
Cash and cash equivalents	1,224,865
Receivables:	
Tuition contracts receivable	578,486
Accrued investment income	445,098
Total current assets	81,355,651
Noncurrent assets	
Tuition contracts receivable	1,438,265
Total noncurrent assets	1,438,265
Total assets	82,793,916
Liabilities	
Current liabilities	
Payable for investments purchased	401,441
Accrued program management fees	60,121
Accrued contract benefits	13,249,059
Total current liabilities	13,710,621
Noncurrent liabilities	
Accrued contract benefits	112,350,993
Total noncurrent liabilities	112,350,993
Total liabilities	126,061,614
Net position (deficit)	$ (43,267,698)

See accompanying Notes to Financial Statements.

State of South Carolina
Office of the State Treasurer
South Carolina Tuition Prepayment Program
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2016

Operating revenues:	
Contract contributions	$ 818,141
Decrease in actuarial value of future contract contributions	(756,905)
Total operating revenues	61,236
Operating expenses:	
Contract benefit payments	14,140,002
Decrease in actuarial value of future contract benefit payments	(24,682,680)
Total operating expenses	(10,542,678)
Operating income	10,603,914
Non-operating revenues (expenses):	
Income from investment securities	2,289,614
Program management fees	(254,918)
Total non-operating revenues (expenses)	2,034,696
Change in net position	12,638,610
Net position (deficit), July 1, 2015	(55,906,308)
Net position (deficit), June 30, 2016	$(43,267,698)

See accompanying Notes to Financial Statements.

State of South Carolina
Office of the State Treasurer
South Carolina Tuition Prepayment Program
Statement of Cash Flows
For the Year Ended June 30, 2016

Cash flows from operating activities:	
Cash receipts from prepaid tuition contracts	$ 818,141
Cash paid for tuition	(14,140,002)
Net cash used in operating activities	(13,321,861)
Cash flows from investing activities:	
Purchases of investment securities	(18,407,522)
Sales and maturities of investment securities	30,768,971
Interest and dividends on investments	1,833,832
Cash paid for program management services	(263,731)
Net cash provided by investing activities	13,931,550
Net increase in cash and cash equivalents	609,689
Cash and cash equivalents, July 1, 2015	615,176
Cash and cash equivalents, June 30, 2016	$ 1,224,865
Reconciliation of operating income to net cash used in operating activities:	
Operating income	$ 10,603,914
Adjustments to reconcile operating income to net cash used in operating activities:	
Decrease in tuition contracts receivable	756,905
Decrease in contract benefits payable	(24,682,680)
Total adjustments	(23,925,775)
Net cash used in operating activities	$(13,321,861)
Supplemental disclosure of noncash investing transactions:	
Net change in appreciation on investments	$ 814,311

See accompanying Notes to Financial Statements.

State of South Carolina
Office of the State Treasurer
South Carolina Tuition Prepayment Program
Notes to Financial Statements
For the Year Ended June 30, 2016

Note 1. Organization

The South Carolina Tuition Prepayment Program (the "Program"), part of the South Carolina College Investment Trust Fund (the "Trust Fund"), was established by the South Carolina General Assembly (the "Assembly") in accordance with Section 529 of the Internal Revenue Code of 1986, as amended (the "Code"), and Chapter 4 of Title 59 of the South Carolina Code of Laws of 1976, as amended (the "SC Code"). The Program is intended to provide a tax-advantaged method to prepay future higher education expenses of designated beneficiaries at eligible educational institutions and has been designed to comply with the requirements for treatment as a "qualified tuition program" under the Code. The Office of the State Treasurer of South Carolina (the "Treasurer") is responsible for administering the Program and selecting a Program Manager to provide overall program management services.

The Program was established to assist the citizens of South Carolina with the expense of college by providing an advanced payment program for tuition at a fixed and guaranteed level for public colleges and universities. Operations of the Program began in 1998 with the initial enrollment period commencing on September 14, 1998.

The Program's last open enrollment period lasted from March 2006 through May 2006. Effective July 1, 2008, the Assembly closed the Program to new enrollment. Closing the Program to new enrollment did not affect existing participants in the Program and the Program remains in full operation. At June 30, 2016, contract holders continue to pay any amounts due, including monthly installments, penalties and fees, and the Program continues to pay all benefits due.

Effective October 1, 2012, Columbia Management Investment Advisers, LLC ("Columbia") and Columbia Management Investment Distributors, Inc., (collectively the "Program Manager"), each a wholly-owned subsidiary of Ameriprise Financial, Inc., serve as the Program Manager. The Program Manager is responsible for the day-to-day operations of the Program, including providing certain investment management and administrative services to the Program. Prior to October 1, 2012, the Program was managed by the Treasurer.

The financial statements present only the South Carolina Tuition Prepayment Program administered by the State of South Carolina, Office of the State Treasurer, and do not purport to, and do not, present fairly the financial position of the State of South Carolina or the Office of the South Carolina State Treasurer as of June 30, 2016, and changes in their financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America. As of June 30, 2016, the Program's liabilities (primarily consisting of discounted future tuition payments) exceeded its assets by approximately $43.3 million.

Note 2. Significant Accounting Policies

The financial statements of the Program have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental entities. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Program's significant accounting policies are described below.

Basis of Presentation

The State of South Carolina reports the Program as a nonmajor enterprise fund in its Comprehensive Annual Financial Report. As an enterprise fund, the financial statements of the Program are presented on the flow of economic resources measurement focus and accrual basis accounting in conformity with GAAP. Under this method of accounting, revenues are recorded when earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing services to the general public and others on a continuing basis be financed or recovered primarily through user charges.

Enterprise funds distinguish operating revenues and expenses from non-operating. Operating revenues and expenses generally result from providing services in connection with the enterprise fund's principal ongoing operations. The principal operating revenues and expenses relate to tuition contract contributions and tuition benefit payments. Activity related to investment activity (such as investment income, changes in the fair value of investments and program management fees) is reported as non-operating activity.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires Program management to make estimates and assumptions that affect the reported amounts included in the financial statements and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash includes cash in banks and interest bearing deposits with banks. Cash equivalents include short-term, highly liquid investments (three months or less until maturity) that are readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value. Such amounts include money market mutual funds.

Investments

Investment transactions are recorded on the trade date. Dividends are recorded on the ex-dividend date. Interest income is determined on an accrual basis.

Investment Valuation

Investments are valued on a daily basis at fair value. Fair value is defined by GASB Statement No. 72, *Fair Value Measurement and Application*, as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." Investments in mutual funds (including money market funds) are valued at their respective net asset values and are determined as of the close of the New York Stock Exchange (generally 4:00 PM Eastern time) on the valuation date. Debt securities are generally valued by independent pricing services approved by Columbia based upon market transactions for normal, institutional-size trading units of similar securities. The services may use various pricing techniques which take into account appropriate factors such as yield, quality, coupon rate, maturity, type of issue, trading characteristics and other data, as well as broker quotes. Debt securities for which quotations are readily available may also be valued based upon an over-the-counter or exchange bid quotation.

Tuition Contracts Receivable

Tuition contracts receivable of the Program at the balance sheet date represents Program management's best estimate of the present value of future contract payments using the payments at the discount rate. The discount rate represents the assumed net investment yield and was 2.1% as of June 30, 2016.

Accrued Contract Benefits

The Program records accrued contract benefits at the actuarial present value of its future tuition obligation, which is adjusted for the effects of projected tuition and fee increases and termination of contracts. The tuition inflation assumption of 5.5% is based on the statutory limit on benefit increases for Program beneficiaries. See Note 7 for the key actuarial assumptions used in the June 30, 2016 independent Actuarial Valuation.

Income Taxes

The Program intends to qualify each year as a qualified tuition program in accordance with Section 529 of the Code, which provides exemption from federal income tax. Under South Carolina state law, the Program will not pay a South Carolina franchise tax or other tax based on income. Therefore, no provision for federal or state income taxes has been recorded in accordance with the enabling legislation.

Recent Accounting Pronouncements

The GASB has issued the following standards that were effective during the current reporting period or will be effective in future periods:

In February, 2015, the GASB issued GASB No. 72, *Fair Value Measurement and Application*. This Statement establishes general principles for measuring fair value and standards of accounting and financial reporting for assets and liabilities measured at fair value. This Statement is effective for financial statement periods beginning after June 15, 2015. The Program has adopted this standard and included a disclosure for Fair Value Measurement within the Notes to Financial Statements.

In June, 2015, the GASB issued GASB No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Statement No. 73 addresses the accounting and financial reporting rules for pension plans and sponsoring employers that are not covered under Statement No. 67 and No. 68. Generally, the provisions of Statement No. 73 are effective for fiscal years beginning after June 15, 2015 The adoption of this standard did not have a significant impact on the Programs financial statements.

In June, 2015, the GASB issued GASB No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. This Statement applies to Benefit Plans other than pension plans (OPEB) plans that administer benefits on behalf of governments through trusts that meet the GASB's specified criteria. It replaces GASB Statement No. 43 and requires more extensive note disclosures and required supplementary information (RSI) for both defined benefit and defined contribution OPEB plans. The provisions of Statement No. 74 are effective for plan fiscal years beginning after June 15, 2016. Program management has not determined the effect, if any, this Statement will have on its financial statements.

In June, 2015, the GASB issued GASB No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The Statement replaces the requirements of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB). Among other things, Statement No. 75 requires governments to report a liability on the face of the financial statements for the OPEB that they provide and requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information about their OPEB liabilities. This Statement is effective for fiscal years beginning after June 15, 2017. Program management has not determined the effect, if any, this Statement will have on its financial statements.

In June, 2015, the GASB issued GASB No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the AICPA that is cleared by the GASB. The Statement is effective for reporting periods beginning after June 15, 2015. The adoption of this standard did not have a significant impact on the Programs financial statements.

In August, 2015, the GASB issued GASB No. 77, Tax Abatement Disclosures. This Statement requires state and local governments, for the first time, to disclose information about tax abatement agreements. It requires governments to disclose information about their own tax abatements separately from information about tax abatements that are entered into by other governments and reduce the reporting government's tax revenues. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Program management has not determined the effect, if any, this Statement will have on its financial statements.

In December, 2015, the GASB issued GASB No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This Statement amends the scope and applicability of GASB 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that: (1) is not a state or local governmental pension plan; (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers; and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. This Statement is effective for financial statement periods beginning after December 15, 2015. Program management has not determined the effect, if any, this Statement will have on its financial statements.

In December, 2015, the GASB issued GASB No. 79, *Certain External Investment Pools and Pool Participants*. This Statement permits qualifying external investment pools to measure pool investments at amortized cost for financial reporting purposes and provides guidance that will allow many pools to continue to qualify for amortized cost accounting. Existing standards provide that external investment pools may measure their investments at amortized cost for financial reporting purposes if they follow substantially all of the provisions of the SEC's Rule 2a7. Likewise, participants in those pools are able to report their investments in the pool at amortized cost per share. GASB 79 replaces the reference in existing GASB literature to Rule 2a7 with criteria that are similar in many respects to those in Rule 2a7. GASB 79 is effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged. The adoption of this standard did not have a significant impact on the Programs financial statements.

In January, 2016, the GASB issued GASB No. 80 *Blending Requirements for Certain Component Units- An Amendment of GASB Statement No. 14.* The Statement clarifies the display requirements in GASB Statement No. 14, The Financial Reporting Entity, by requiring these component units to be blended into the primary state or local government's financial statements in a manner similar to a department or activity of the primary government. The guidance addresses diversity in practice regarding the presentation of not-for-profit corporations in which the primary government is the sole corporate member. Although GASB 80 applies to a limited number of governmental units, such as, for example, public hospitals, the GASB intends for it to enhance the comparability of financial statements among those units and improve the value of this information for users of state and local government financial statements. This Statement is effective for financial statement periods beginning after June 15, 2016. Program management has not determined the effect, if any, this Statement will have on its financial statements.

In March, 2016, The GASB issued GASB No. 81 *Irrevocable Split-Interest Agreements.* The Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. GASB 81 requires that a government recognize revenue when the resources become applicable to the reporting period. This Statement is effective for financial statement periods beginning after December 15, 2016. Program management has not determined the effect, if any, this Statement will have on its financial statements.

In March, 2016, The GASB issued GASB No. 82 *Pension Issues- An Amendment of GASB Statements No. 67, No. 68, and No. 73.* The Statement addresses, among other things, presentation of payroll-related measures in required supplementary information, selection of assumptions and the treatment of deviations from guidance in Actuarial Standards of Practice for financial reporting purposes, and classification of payments made by employers to satisfy plan member contribution requirements. GASB 82 is designed to improve consistency in the application of the pension standards by clarifying or amending related areas of existing guidance. Specifically, the practice issues raised by stakeholders during implementation relate to GASB 67, 68, and 73. This Statement is effective for financial statement periods beginning after June 15, 2017. Program management has not determined the effect, if any, this Statement will have on its financial statements.

Note 3. Investments

Pursuant to Section 59-4-30 of the SC Code, the Treasurer is responsible for developing and adopting the investment policies, guidelines and strategies for the Program. The Treasurer has adopted a Comprehensive Investment Plan ("CIP") for the Program, which shall by followed by the Treasurer, Program Manager and any advisor engaged by the Treasurer to provide advice and monitor the Program. The current CIP was adopted on October 1, 2012, as since amended.

The CIP 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;
- Establish the criteria and procedures for selecting investments available to the Program Manager;
- Identify roles of specific entities having fiduciary responsibility to the Program;
- Establish guidelines, consistent with separate monitoring procedures, for monitoring investment risk and evaluating investment performance; and
- Provide for an annual investment review of the Program.

All assets of the Program must be invested in a manner that meets the requirements of the CIP. Under the CIP, the assets of the Program shall be invested in various individual investments for each specified asset classification. The investment objectives of the Program assets are to:

- Strive to achieve an investment rate of return and appropriate risk level in order to maximize the life of the Program.
- Invest in a manner which is appropriate and prudent for the Program.
- Reasonably anticipate liquidity needs of the Program.

The Treasurer is responsible for monitoring and operating the Program in compliance with the Code, the SC Code and the CIP. The Treasurer is also generally responsible for establishing investment policies; approving or disproving of investments annually or otherwise, as needed; establishing criteria for selecting investments, asset classes and advisors; reviewing and approving investment proposals by the Program Manager and approving procedures for monitoring investment performance and contractual obligations.

The Treasurer has also developed a written investment monitoring program with regard to investment and compliance matters ("Monitoring Program"), dated October 1, 2012, as since amended.

The Treasurer has retained an investment consultant to assist with the CIP and Monitoring Program, providing general advice and recommendations on matters including, but not limited to, investment personnel, investment performance, investment strategy and objectives and Program investment and asset class changes.

Unless otherwise limited by the CIP, the Program's investments may 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 services;
- Securities issued by an investment company registered under the Investment Company Act of 1940 ("Underlying Funds");
- Obligations of the United States, its agencies and instrumentalities;
- Obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, the African Development Bank and the Asian Development Bank;

- Obligations of a corporation, state or political subdivision denominated in U.S. dollars, provided that the obligation bears an investment grade rating from at least two nationally recognized rating services ("Rating Agency");
- Certificates of deposit;
- Repurchase agreements; and
- 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 Rating Agencies.
- For avoidance of doubt, collateralized mortgage obligations ("CMO's") are not authorized investments under Section 11-9-660 of the SC Code: therefore, investments in CMO's are prohibited.

At June 30, 2016, the Program's CIP benchmark was a custom blend (80% Barclays Credit 1-5 Year Index, 10% Barclays Treasury Credit 1-5 Year Index and 10% Merrill Lynch 3 Month Treasury Index).

As of June 30, 2016, the Program's assets were deployed in a mix of fixed income investments and cash and equivalents, as shown in the table below:

Asset Class	Investment Type	Fair Value ($)
Immunized Fixed Income	Cash and equivalents	$ 1,224,865
	Corporate Bonds	53,524,150
	Government/Treasury	25,583,052
		$80,332,067

Under the Monitoring Program, the Immunized Fixed Income investments are monitored based on sector allocation, duration, yield to maturity and average credit rating.

Fair Value Measurements

The Program categorizes its fair value measurements according to a three-level hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs by prioritizing that the most observable input be used when available. Observable inputs are those that market participants would use in pricing an investment based on market data obtained from sources independent of the reporting entity. Unobservable inputs are those that reflect the Program's assumptions about the information market participants would use in pricing an investment. An investment's level within the fair value hierarchy is based on the lowest level of any input that is deemed significant to the asset's or liability's fair value measurement. The input levels are not necessarily an indication of the risk or liquidity associated with investments at that level. For example, certain U.S. government securities are generally high quality and liquid, however, they are reflected as Level 2 because the inputs used to determine fair value may not always be quoted prices in an active market.

Fair value inputs are summarized in the three broad levels listed below:

- Level 1 – Valuations based on quoted prices for investments in active markets that the Program has the ability to access at the measurement date. Valuation adjustments are not applied to Level 1 investments.

- Level 2 – Valuations based on other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risks, etc.).
- Level 3 – Valuations based on significant unobservable inputs (including the Program's own assumptions and judgment in determining the fair value of investments).

Inputs that are used in determining fair value of an investment may include price information, credit data, volatility statistics, and other factors. These inputs can be either observable or unobservable. The availability of observable inputs can vary between investments, and is affected by various factors such as the type of investment, and the volume and level of activity for that investment or similar investments in the marketplace. The inputs will be considered by the Program Manager, along with any other relevant factors in the calculation of an investment's fair value. The Program uses prices and inputs that are current as of the measurement date, which may include periods of market dislocations. During these periods, the availability of prices and inputs may be reduced for many investments. This condition could cause an investment to be reclassified between the various levels within the hierarchy.

Investments falling into the Level 3 category are primarily supported by quoted prices from brokers and dealers participating in the market for those investments. However, these may be classified as Level 3 investments due to lack of market transparency and corroboration to support these quoted prices. Additionally, valuation models may be used as the pricing source for any remaining investments classified as Level 3. These models may rely on one or more significant unobservable inputs and/or significant assumptions by the Investment Manager. Inputs used in valuations may include, but are not limited to, financial statement analysis, capital account balances, discount rates and estimated cash flows, and comparable company data.

Columbia's Valuation Committee (the Committee) is responsible for overseeing all valuation procedures. The Committee consists of voting and non-voting members from various groups within Columbia Management's organization, including operations and accounting, trading and investments, compliance, risk management and legal.

The Committee meets at least monthly to review and approve valuation matters, which may include a description of specific valuation determinations, data regarding pricing information received from approved pricing vendors and brokers and the results of Board-approved valuation control policies and procedures (the Policies). The Policies address, among other things, instances when market quotations are or are not readily available, including recommendations of third party pricing vendors and a determination of appropriate pricing methodologies; events that require specific valuation determinations and assessment of fair value techniques; securities with a potential for stale pricing, including those that are illiquid, restricted, or in default; and the effectiveness of third party pricing vendors, including periodic reviews of vendors. The Committee meets more frequently, as needed, to discuss additional valuation matters, which may include the need to review back-testing results, review time-sensitive information or approve related valuation actions. The Committee reports to the Board, with members of the Committee meeting with the Board at each of its regularly scheduled meetings to discuss valuation matters and actions during the period, similar to those described earlier.

For investments categorized as Level 3, the Committee monitors information similar to that described above, which may include: (i) data specific to the issuer or comparable issuers, (ii) general market or specific sector news and (iii) quoted prices and specific or similar security transactions. The Committee considers this data and any changes from prior periods in order to assess the reasonableness of observable and unobservable inputs, any assumptions or internal models used to value those securities and changes in fair value. This data is also used to corroborate, when available, information received from approved pricing vendors and brokers. Various factors impact the frequency of monitoring this information (which may occur as often as daily). However, the Committee may determine that changes to inputs, assumptions and models are not required as a result of the monitoring procedures performed.

	Level 1	Level 2	Level 3	Total ($)
Investment Type	**Quoted Prices in active Markets for Identical Assets ($)**	**Other Significant Observable Inputs ($)**	**Significant Unobservable Inputs ($)**	
Cash equivalents	$ 1,224,865	$ —	$—	$ 1,224,865
Corporate Bonds	—	53,524,150	—	53,524,150
Government/Treasury	23,389,075	2,193,977	—	25,583,052
	$24,613,940	$55,718,127	$—	$80,332,067

The Program's assets assigned to the Level 2 input category are generally valued using the market approach, in which a security's value is determined through reference to prices and information from market transactions for similar or identical assets.

There were no transfers of financial assets between levels during the period.

Foreign Securities Risk
There are certain additional risks involved when investing in foreign securities that are not inherent with investments in domestic securities. These risks may involve foreign currency exchange rate fluctuations, adverse political and economic developments and the possible prevention of currency exchange or other foreign governmental laws or restrictions. In addition, the liquidity of foreign securities may be more limited than that of domestic securities. At June 30, 2016, 11.1% of the fair value of the investments of the Program were invested in securities whose identified country of risk was outside the United States of America. All foreign securities were denominated in United States Dollars at June 30, 2016.

Custodial Credit Risk
Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Program will not be able to recover deposits that are in the possession of an outside party. The State's policy, by law, requires all banks or savings and loan associations that receive State funds deposited by the Treasurer, to secure the deposits by deposit insurance, surety bonds, collateral securities, or letters of credit to protect the State against any loss. The Program has no formal policy that would further limit the requirements under State law. As of June 30, 2016, the Program's deposits were covered by federal depository insurance and which at times may exceed insured limits. The Program has not experienced any losses in such accounts. The Program believes it is not exposed to any significant credit risk on cash and cash equivalents.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Program will not be able to recover the value of its investments that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are not registered in the Program's name. However, all Program investments are marked to indicate ownership by the Program and to the extent possible, registered in the name of the Program. Investments are held by the Bank of New York Mellon (the Program's custodian) and third party transfer agents or registrars (for money market funds) in the Program's name.

Interest Rate Risk and Credit Risk

Effective February 2015, the Program invests in fixed income securities (the "Immunized Fixed Income Portfolio"). Investing in fixed income securities may involve certain risks, including the credit quality of individual issuers, possible prepayments, market or economic developments and yields and price fluctuations due to changes in interest rates.

Interest rate risk is the risk that changes in interest rates of debt investments will adversely impact the fair value of those investments. The Program has a formal monitoring policy intended to limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Program follows an immunized, liability driven investment strategy, where the Immunized Fixed Income Portfolio is managed based on the cash flows needed to fund expected future liabilities. The Immunized Fixed Income Portfolio's investments are structured in such a way that value increases/decreases in conjunction with increases/decreases in the value of liabilities due to changes in interest rates. The Immunized Fixed Income Portfolio is managed to a duration within 0.5 years (plus or minus) of Program liabilities.

The following table provides weighted average maturity ("WAM") and duration for each investment type held by the Immunized Fixed Income Portfolio (other than cash and equivalents) as of June 30, 2016.

	Fair Value	WAM (Years)	Duration (Years)
Corporate Bonds	$53,524,150	2.42	2.24
U.S. Government Agency	2,193,977	2.96	2.66
Treasury	23,389,075	2.57	2.51
Total	$79,107,202	2.48	2.33

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Program has a formal monitoring policy for credit risk exposure, whereby the average credit rating of the Immunized Fixed Income Portfolio must be AA- or greater. The Immunized Fixed Income Portfolio's authorized investments must bear an investment grade rating from at least two nationally recognized rating services (i.e. Moody's, S&P and Fitch). For purposes of determining the average credit rating, the Program uses the middle of the Moody's, S&P and Fitch ratings. When only two ratings are available, the lower rating is used. U.S. Treasury issues are explicitly guaranteed by the U.S. government, not subject to credit risk and under the monitoring policy, considered to have a rating of AAA.

The following table sets forth the credit quality breakdown of the Immunized Fixed Income Portfolio's corporate bonds and U.S. government agency securities:

	AAA	AA	A	BBB	BB
Immunized Fixed Income Portfolio:					
Corporate Bonds	$511,018	$4,065,807	$25,316,990	$23,062,246	$568,088
U.S. Government Agency		2,193,977			
Total	$511,018	$6,259,784	$25,316,990	$23,062,246	$568,088

Concentration of Credit Risk
Concentration of credit risk is the risk of loss attributed to the magnitude of the Program's investments with a single issuer. The Program does not have a policy to limit concentrations of credit risk. At June 30, 2016, the only issuer which represents more than 5% of the Program's investments is the United States Treasury (29.6% of investment value). However, Treasury securities are backed by the full faith and credit of the United States government and therefore not subject to credit risk.

Note 4. Related Party Transactions

Program Management Fee
The Treasurer has entered into a contract with Columbia to serve as Program Manager, pursuant to which the Program Manager provides program management and investment advisory services to the Program. For its services, the Program pays Columbia a monthly fee, equal to an annual rate of 0.30% of the daily value of the Program's assets (excluding tuition contracts receivable). The Program Management fee is reflected in the Statement of Revenues, Expenses, and Changes in Net Position, while the accrued expense is included in the Statement of Net Position.

Other Expenses
Other than the Program Management fee described above, there are no other operating fees or expenses charged or allocated directly to the Program. Columbia (out of its Program Management fee) pays certain expenses on behalf of the Program, including, but not limited to, investment services, recordkeeping, actuarial, audit and legal. In addition, expenses of the Treasurer are not allocated to the Program.

Note 5. Tuition Contracts Receivable

The future tuition contract receipts are actuarially calculated based on the present value of future receipts and projected investment performance, assumed to be 2.1% annually, net of expenses.

The total actuarial present value of future tuition contracts receivable is $2,016,751. Current tuition contract payments of $578,486 represent payments that are expected to be received within a year from June 30, 2016. Noncurrent tuition contract payments of $1,438,265 represent payments that are expected to be received more than a year after June 30, 2016.

Note 6. Accrued Contract Benefits

The accrued contract benefits represent Program management's estimate of the present value of the estimated tuition payments to be made in future years. As the Program is closed to new contracts, the estimate is determined based on a closed group projection for existing contracts. Accrued contract benefits is actuarially calculated by projecting tuition costs and fee increases at the assumed annual rate of increase and then calculating the expected present value of benefit payments based on the discount rate assumption and outstanding contracts.

The total actuarial present value of accrued contract benefits liability of $125,600,052 as of June 30, 2016, was based on the remaining provision for contract benefits since inception of the Program. Current liabilities of $13,249,059 represent obligations that will become due within a year from June 30, 2016. Noncurrent liabilities of $112,350,993 represent obligations and expenses that will become due more than a year after June 30, 2016.

Note 7. Actuarial Data

Total tuition contracts receivable	$ 2,016,751
Total accrued contract benefits	$125,600,052
Funded ratio	65.7%
Actuarial valuation date	June 30, 2016
Assumed net investment return and discount rate	2.1%
Rate of tuition increases	5.5%
Bias load*	3.0%

* The bias load assumption accounts for Program enrollment at institutions that are more expensive than the weighted average tuition.

Note 8. Program Net Position (Deficit)

As of June 30, 2016, the Program has a net deficit (total liabilities in excess of total assets) of ($43,267,698). The table below details a reconciliation of the deficit in the Actuarial Valuation to the Statement of Net Position as of June 30, 2016:

Unfunded liability per actuarial valuation	$(43,267,849)
Other accrued income	$ 151
Net deficit per Statement of Net Position	$(43,267,698)

Note 9. Program Risks

As discussed in Note 8, the Program has a net deficit of ($43,267,698) as of June 30, 2016. Each year, the Treasurer notifies the Assembly of the implications of the deficit on the ongoing operations of the Program, with various remedial actions for funding as reported in the Program's annual actuarial valuation. In the event that remedial actions are not taken by the Assembly, the Program is projected to run out of assets in the fiscal year beginning on July 1, 2022.

If the State determines that the Program is no longer fiscally or actuarially sound, the State may discontinue the Program and cancel all tuition prepayment contracts. In this instance, the State will determine the level of refunds dependent upon available monies in the Program, as described in the Program's Master Agreement. In general, unused contributions shall be refunded, less certain administrative expenses, plus interest on these contributions from the date payment is made at the rate of at least 4% per annum.

Any act or undertaking of the Program shall not constitute a debt of the State or any agency, department, institution, or political subdivision, or a pledge of the full faith and credit of the State or any agency, department, institution, or political subdivision, but is payable solely from the Program. The Program deficit is also not an obligation of the Program Manager.

Note 10. Subsequent Events

The Program has evaluated the events and transactions that have occurred through the date the financial statements were issued. There were no additional items requiring adjustment of the financial statements or additional disclosure.

RSM

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Office of the State Treasurer of the State of South Carolina:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the South Carolina Tuition Prepayment Program, as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated September 26, 2016. The report contains an emphasis of matters paragraph which states "as further discussed in Notes 8 and 9, the South Carolina Tuition Prepayment Program has a deficit as of June 30, 2016 of $43.3 million. The amount of the reported deficit is highly dependent on the actuarial assumptions used to calculate the actuarial present value of future tuition benefit obligations. Our opinion is not modified with respect to these matters."

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the South Carolina Tuition Prepayment Program's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the South Carolina Tuition Prepayment Program's internal control. Accordingly, we do not express an opinion on the effectiveness of the South Carolina Tuition Prepayment Program's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the South Carolina Tuition Prepayment Program's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Boston, Massachusetts
September 26, 2016

SOUTH CAROLINA STATE
TREASURER'S OFFICE

SOUTH CAROLINA LOCAL GOVERNMENT
INVESTMENT POOL

COLUMBIA, SOUTH CAROLINA

FINANCIAL STATEMENTS

JUNE 30, 2016

SOUTH CAROLINA STATE TREASURER'S OFFICE

SOUTH CAROLINA LOCAL GOVERNMENT INVESTMENT POOL

JUNE 30, 2016

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South Carolina
Office of the State Auditor

George L. Kennedy, III, CPA
State Auditor

September 21, 2016

The Honorable Curtis M. Loftis, Jr.
State Treasurer
State of South Carolina
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Local Government Investment Pool for the fiscal year ended June 30, 2016, was issued by The Hobbs Group, PA, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

George L. Kennedy, III

George L. Kennedy, III, CPA
State Auditor

GLKIII/cwc

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INDEPENDENT AUDITORS' REPORT

Mr. George L. Kennedy, III, CPA
State Auditor
Office of the State Auditor
Columbia, South Carolina

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the South Carolina Local Government Investment Pool (the "*Pool*"), an investment trust fund of the State of South Carolina as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Pool's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Pool, as of June 30, 2016, and the respective changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

EMPHASIS OF MATTER

As discussed in Note 1, the financial statements present only the South Carolina Local Government Investment Pool, an investment trust fund of the State of South Carolina and do not purport to, and do not, present fairly the financial position of the South Carolina State Treasurer's Office, or the State of South Carolina, as of June 30, 2016, and the changes in its financial position, or where applicable, their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pool's basic financial statements. The schedule of net position in pool participants' accounts (the "*Schedule*") is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2016 on our consideration of the Pool's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pool's internal control over financial reporting and compliance.

Columbia, South Carolina
September 21, 2016

The Hobbs Group, P.A.

Management's Discussion and Analysis

The South Carolina Local Government Investment Pool (the "Pool") is an investment option for local governments of the State of South Carolina provided by the State Treasurer's Office as required by statute. The Pool invests in fixed income securities as provided by statute and is managed in a manner to preserve capital and provide needed liquidity while earning a prudent daily variable rate of return. A fixed rate option is also available. The attached financial statements present a financial "snapshot" of the Pool. The Statement of Fiduciary Net Position presents information on the Pool's assets and liabilities at June 30, 2016 with the difference between the two reported as net position. The Statement of Changes in Fiduciary Net Position during the period from July 1, 2015 to June 30, 2016 presents information showing how the Pool's net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

During the fiscal year, the Federal Reserve continued aggressive stimulus via its low "zero" interest rate policy. Our internal policy to control risk insulated the portfolio from many of the market pitfalls by maintaining a high degree of liquidity and well diversified profile of credit risk. The Federal Reserve is expected to maintain its policy of low interest rates thru the 2017 fiscal year. Commercial paper and LIBOR rates will remain low as a result.

Financial Analysis

Table 1: Summary Statement of Fiduciary Net Position

	June 30, 2016	June 30, 2015	Change
Assets			
Cash and cash equivalents	$ 3,868,519,192	$ 2,577,677,806	$ 1,290,841,386
Accounts receivable	-	2,002	(2,002)
Invested securities lending collateral	1,900,080	80,007	1,820,073
Interest receivable	2,086,431	2,115,029	(28,598)
Investments, at fair value	996,192,055	1,785,208,373	(789,016,318)
Total Assets	$ 4,868,697,758	$ 4,365,083,217	$ 503,614,541
Liabilities			
Account payable	$ -	$ 24,494,511	$ (24,494,511)
Collateral for loaned securities	1,900,080	82,400	1,817,680
Due to participants	11,387,207	-	11,387,207
Total Liabilities	$ 13,287,287	$ 24,576,911	$ (11,289,624)
Total Net Position - Restricted	$ 4,855,410,471	$ 4,340,506,306	$ 514,904,165

The Statement of Fiduciary Net Position shows that the assets of the Pool are the cash and investments made by the State Treasurer as Custodian of the Pool plus accrued income receivable on those investments at June 30, 2016. The market conditions that existed during the year created a limited demand for loaned securities.

The liabilities of the Pool usually consist of collateral held for loaned securities that are due back to the borrowers under securities lending transactions and amounts due to participants. There was $1,900,080 and $82,400 in securities out on loan at June 30, 2016 and 2015, respectively. Market conditions drive the securities lending activity of the Pool. Additionally, the Pool held cash in the amount of $11,387,207 that had yet to be distributed to participants. As of June 30, 2015, there was $24,494,511 due as accounts payable to settle outstanding investment transactions. There was not a similar investment transaction being settled at June 30, 2016.

The Net Position of the Pool is held for the Pool participants and is divided into amounts distributed to participants' accounts and undistributed amounts. Net position of $4,822,193,832 has been distributed to participant accounts while $33,216,639 is undistributed. The undistributed portion of net position is primarily a statutorily permitted reserve for contingencies. The current reserve for contingencies is well below the allowable cap of 1% of fund assets.

Table 2: Summary Statement of Changes in Fiduciary Net Position

	June 30, 2016	June 30, 2015	Change
Investment Income	$ 28,399,023	$ 10,611,791	$ 17,787,232
Expenses	(586,481)	(480,605)	(105,876)
Deposits, withdrawals and other participant activity	487,091,623	201,091,867	285,999,756
Changes in Net Position	514,904,165	211,223,053	303,681,112
Net Position - Beginning of Year	4,340,506,306	4,129,283,253	211,223,053
Net Position - End of Year	$ 4,855,410,471	$ 4,340,506,306	$ 514,904,165

The significant increase in both investment income and net participant activity is due to increased participation in the Pool by various municipalities and local governments. The number of accounts in the Pool increased substantially and drove up both investment income and participant activity balances for the year ended June 30, 2016. At June 30, 2016 there were 621 participating accounts in the pool as compared to 617 at the previous year end.

During the fiscal year (FY) 2016, the Federal Reserve Bank continued to keep the Federal Funds rate very low between 0.13% and 0.38%. The average investment rate earned by the Pool increased from 0.23% in FY 15 to 0.50% for FY 16. For this fiscal year, the Pool outperformed its benchmark, the 90-day Treasury Bills, which returned 0.19%. The pool earned $17,793,313 more in investment income than the prior fiscal year. During FY 16 there were more deposits to the Pool than withdrawals. There was also a significant increase in deposits due to low interest rate conditions. Participants took advantage of higher rates paid by the Pool due to economies of scale. The table below provides the investment rates for the current and prior fiscal years by month.

Table 3: LGIP Participant distribution rate comparison for last two fiscal years

	FY 15-16	FY 14-15
July	0.28%	0.14%
August	0.30%	0.17%
September	0.35%	0.18%
October	0.40%	0.21%
November	0.39%	0.22%
December	0.49%	0.25%
January	0.57%	0.26%
February	0.63%	0.26%
March	0.70%	0.25%
April	0.67%	0.28%
May	0.69%	0.27%
June	0.70%	0.29%
Average	***0.50%***	***0.23%***

These funds remain available for withdrawal on a 24 hour notice.

The expenses of the Pool are limited to the actual expenses incurred by the State Treasurer's Office to operate the Pool, which by law must be offered at no cost to the State. These costs are paid by interest earnings generated by the pool rather than State appropriations.

Contacting the Pool

Persons needing additional information concerning this report may do so by writing or telephoning the South Carolina State Treasurer's Office, P.O. Box 11778, Columbia, South Carolina 29211; telephone (803) 734-2641; facsimile (803) 734-2697.

SOUTH CAROLINA STATE TREASURER'S OFFICE
SOUTH CAROLINA LOCAL GOVERNMENT INVESTMENT POOL

STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2016

	Investment Trust Fund
ASSETS	
Cash and cash equivalents	$ 3,868,519,192
Invested securities lending collateral	1,900,080
Accrued interest receivable	2,086,431
Investments, at fair value	996,192,055
Total assets	4,868,697,758
LIABILITIES	
Collateral for loaned securities	1,900,080
Due to participants	11,387,207
Total liabilities	13,287,287
NET POSITION	
Restricted for pool participants' accounts	4,822,193,832
Restricted for pool participants - undistributed	33,216,639
Total net position	$ 4,855,410,471

The notes to financial statements are an integral part of these financial statements.

SOUTH CAROLINA STATE TREASURER'S OFFICE
SOUTH CAROLINA LOCAL GOVERNMENT INVESTMENT POOL

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2016

	Investment Trust Fund
ADDITIONS:	
Investment income	$ 28,375,611
Securities lending income	23,412
Total revenue	28,399,023
DEDUCTIONS:	
Administrative expenses	586,481
Net increase in net position resulting from operations	27,812,542
INCOME DISTRIBUTED TO PARTICIPANTS	(23,935,292)
PARTICIPANT TRANSACTIONS:	
Deposits & income reinvested	9,165,694,884
Less withdrawals	(8,654,667,969)
Net increase in net position resulting from participant transactions	511,026,915
Total increase in net position	514,904,165
NET POSITION:	
Beginning of year	4,340,506,306
End of year	$ 4,855,410,471

The notes to financial statements are an integral part of these financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity

The South Carolina State Treasurer's Office (the "Treasurer's Office") is an agency of the State of South Carolina (the "State") established by Article III, Section 7 of the Constitution of South Carolina. Pursuant to Section 6-6-10 of the State of South Carolina Code of Laws, the Treasurer's Office established, in May 1983, the South Carolina Local Government Investment Pool (the "Pool"), an investment trust fund, in which public monies in excess of current needs, which are under the custody of any county treasurer or the governing body of any municipality, county, school district, regional council of government or any other political subdivision of the State, may be deposited.

The accompanying financial statements present the financial position and results of operations solely of the Pool and do not include any other agencies or component units of the State or any other funds of the Treasurer's Office. The Local Government Investment Pool is not registered with the SEC. It is similar to a money market fund in that it is offered at a stable price and is guided by risk control principles such as significant overnight Repurchase Agreements for liquidity; attention to credit quality, portfolio diversification and maintenance of a short average maturity of fixed and floating rate investments. The Pool is included as an investment trust fund in the State's Comprehensive Annual Financial Report. There is no regulatory oversight of the Pool. For purposes of separate fund financial statements, the Pool is treated as an external investment pool.

Basis of Accounting and Measurement Focus

The Pool is reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The Pool applies all applicable Governmental Accounting Standards Board ("GASB") pronouncements.

Pool Accounting

The Pool accounts for assets held by a governmental unit in a trustee capacity as an agent for individuals, private organizations, other governmental units, or other funds (the "participants"). An external investment pool is used when an arrangement exists that commingles the monies of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio. An external investment pool can be sponsored by an individual government, jointly by more than one government, or by a nongovernmental entity. The Pool, which is an investment trust fund of the State, records participant unit issues and related interest income for which the resources are restricted for participant unit redemptions, distributions, and related interest expense. The Pool is open to local government entities.

Cash and Cash Equivalents

For purposes of the financial statements, the Pool considers all highly liquid investments with an original maturity of three months or less from the date of purchase to be cash equivalents.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Investments

In accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and as amended by GASB Statement No. 72, Fair Value Measurement and Application, investments are carried at fair value. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than forced liquidation. Fair value for all investments of the Pool is determined on a recurring basis based upon quoted market prices. See Note 2 for further information on fair value measurements.

Section 11-9-660 of the State of South Carolina Code of Laws authorizes the Treasurer's Office to invest and reinvest the monies of the Pool in the following types of investments:

(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.

Accrued Interest Receivable

Accrued interest receivable includes interest earned for the month of June 2016 and payable on July 1, 2016.

Due to Participants

Due to participants represent amounts settled in cash on June 30, 2016 for investment transactions but had not been credited to participant accounts as of year-end.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Investment Income

Investment income consists of interest revenue, amortization of premium/discount, and realized/unrealized gains and losses.

Administrative Expenses

Proviso 98.4 of the State's 2015-2016 Appropriations Act authorized the Treasurer's Office to charge a fee for the operations and management costs associated with the Pool. The Act further authorized the Treasurer's Office to retain and expend the fees to provide the services. The fees assessed may not exceed the costs of the provision of services. There is no legal requirement for the Pool to adopt a budget.

Participant Unit Issues, Redemptions, and Distributions

The Treasurer's Office may sell participation units to all political subdivisions of the State. Funds may be deposited at any time and may be withdrawn upon 24 hours' notice. At the option of the participant, such funds can be invested for a fixed period of time for a guaranteed rate of return. Both the conditions, period and rate, are determined at the time of investment. Participant shares in the pool are dollar denominated; therefore, the number of shares sold and redeemed is equal to the dollars withdrawn. Monthly investment income is distributed to participants in the form of additional units in the pool and is calculated on the accrual basis of accounting, including accrued interest and amortization of premium or discount. Unrealized gains and losses on investments are not distributed to participants until realized, however they are recognized in the financial statements in accordance with generally accepted accounting principle requirements for fair value accounting of investments. The Pool does not carry any legally binding guarantees to protect participants against potential loss of investment value.

Interest earnings are accrued daily based on participation units valued at $1.00 and distributed to the participants at the end of each month. Interest accruals are computed first for those fixed rate participation units, with the balance distributed equitably among the other participant accounts.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Implementation of New Accounting Standards

The Pool implemented the provisions of GASB Statement No. 72, Fair Value Measurement and Application, for the year ended June 30, 2016. The objective of this Statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. The Pool previously reported its investments at fair value on a recurring basis, so the primary effect of the implementation of this Statement was additional disclosure, which can be found in Note 2.

NOTE 2: DEPOSITS, INVESTMENTS, AND SECURITIES LENDING TRANSACTIONS

All deposits, investments, and securities lending transactions of the Pool are under the control of the Treasurer's Office who, by law, has sole authority for the investment of such funds.

The following schedule reconciles the amounts reported in the Statement of Fiduciary Net Position to the notes.

Statements		Notes	
Cash and cash equivalents	$ 3,868,519,192	Deposits	$ 11,392,700
Investments	996,192,055	Investments	4,853,318,547
Totals	$ 4,864,711,247		$ 4,864,711,247

Deposits

Deposits include amounts held by banks. Custodial credit risk for deposits is the risk that in the event of a bank failure, the Pool's deposits may not be recovered. As prescribed by statute, the State Treasurer is the Custodian of all deposits and is responsible for securing all deposits held by banks or savings and loan associations. These deposits must be secured by deposit insurance, surety bonds, collateral securities, or letters of credit to protect the State against loss in the event of insolvency or liquidation of the institution or for any other cause. All deposits are required to be and were insured by the Federal Deposit Insurance Corporation up to $250,000 or were fully collateralized with securities held by the State or its agent in the State Treasurer's name as Custodian.

The Pool does not maintain any deposits denominated in a foreign currency.

NOTE 2: DEPOSITS, INVESTMENTS, AND SECURITIES LENDING TRANSACTIONS (Continued)

Investments

Investments consist of the following as of June 30, 2016:

Type of Investment	Fair Value	Maturity Dates	Interest Rates
Consolidated Obligations			
Federal Home Loan Bank	$ 318,222,044	9/12/2016 - 6/29/18	0.5% - 1.625%
Federal Farm Credit Bank	151,513,891	8/16/16 - 5/18/18	0.55% - 1.04%
Corporate			
Corporate Bonds	469,489,028	9/1/2016 - 7/1/2018	0.75% - 1.792%
Sovereign Bonds	5,000,000	11/1/2017	1.40%
Certificates of Deposit	20,001,800	7/13/2016	0.788%
Short Term Investments			
Commercial Paper	3,531,535,784	7/11/2016 - 4/3/2017	0.50% - 1.20%
Repurchase Agreements	357,556,000	7/1/2016	0.37%
Total	$ 4,853,318,547		

Fair Value of Investments

The Pool measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

Level 1: Quoted prices for identical investments in active markets;
Level 2: Observable inputs other than quoted market prices; and,
Level 3: Unobservable inputs.

At June 30, 2016, the Pool had the following recurring fair value measurements.

NOTE 2: DEPOSITS, INVESTMENTS, AND SECURITIES LENDING TRANSACTIONS (Continued)

Investments (Continued)

Fair Value of Investments (Continued)

Type of Investment	Fair Value	Fair Value Measurements Using Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Consolidated Obligations				
Federal Home Loan Bank	$ 318,222,044	$ -	$ 318,222,044	$ -
Federal Farm Credit Bank	151,513,891	-	151,513,891	-
Corporate				
Corporate Bonds	469,489,028	-	469,489,028	-
Sovereign Bonds	5,000,000	-	5,000,000	-
Certificates of Deposit	20,001,800	-	20,001,800	-
Short Term Investments				
Commercial Paper	3,531,535,784	-	3,531,535,784	-
Repurchase Agreements	357,556,000	-	357,556,000	-
Total	$ 4,853,318,547	$ -	$ 4,853,318,547	$ -

Debt and equity securities classified in Level 2 are valued using observable inputs other than quoted market prices. Level 2 inputs are based primarily on prices from several third-party vendors. At the time of acquisition, each security is automatically assigned a primary pricing source, based on its characteristics. The price received from a primary source is used in portfolio valuation reports, unless a tolerance check, or price challenge results in the use of a price from a secondary vendor.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Pool will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. At June 30, 2016, all of the Pools' investments were insured and registered.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This risk is managed within the portfolio using effective duration. Effective duration is a measure of the price sensitivity of a bond or a portfolio of bonds to interest rate movements given a 50 basis point change in interest rates. It takes into account that expected cash flows will fluctuate as interest rates change and provides a measure of risk that changes proportionately with market rates. The Pool's investment policy requires that the weighted average maturity and weighted average duration of the actively managed fixed income portfolio should be consistent with the liquidity requirements of the pool. The following schedule presents the Pool's interest rate risk.

NOTE 2: DEPOSITS, INVESTMENTS, AND SECURITIES LENDING TRANSACTIONS (Continued)

Investments (Continued)

Interest Rate Risk (Continued)

Investment Type	Fair Value	Effective Duration
Consolidated Obligations		
Federal Home Loan Bank	$ 318,222,044	0.57
Federal Farm Credit Bank	151,513,891	0.97
Corporate		
Corporate Bonds	469,489,028	0.89
Sovereign Bonds	5,000,000	0.00
Certificates of Deposit	20,001,800	0.53
Short Term Investments		
Commercial Paper	3,531,535,784	0.06
Repurchase Agreements	357,556,000	0.00
	$ 4,853,318,547	

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Pool. The investment policy for credit quality of debt securities states that securities must bear an investment grade rating from at least two of the national rating agencies. Credit quality of cash reserves must carry a rating of A1/P1/F1 or D1 from at least one nationally recognized rating services. In the event that the rating of a security falls below investment grade, that security may continue to be held contingent upon an evaluation of the longer term investment merits of the security. Credit risk ratings are not required for obligations of the U.S. government or those obligations explicitly guaranteed by the U.S. government. As of June 30, 2016, the Pool's rated debt investments were rated by Standard & Poor's and are as follows:

Investment Type	Fair Value	AA+	AA	AA-	A+
Consolidated Obligations					
Federal Home Loan Bank	$ 318,222,044	$ 318,222,044	$ -	$ -	$ -
Federal Farm Credit Bank	$ 151,513,891	151,513,891	-	-	-
Corporate					
Corporate Bonds	$ 469,489,028	33,230,020	76,100,963	98,169,672	20,019,500
Sovereign Bonds	$ 5,000,000	-	-	-	-
Certificates of Deposit	$ 20,001,800	-	-	20,001,800	-
Short Term Investments					
Commercial Paper	$ 3,531,535,784	-	-	-	-
Repurchase Agreements	$ 357,556,000	-	-	-	-
	$ 4,853,318,547	$ 502,965,955	$ 76,100,963	$ 118,171,472	$ 20,019,500

Note 2: DEPOSITS, INVESTMENTS, AND SECURITIES LENDING TRANSACTIONS (Continued)

Credit Risk (Continued)

Investment Type	A	A-	A1	A2	BBB+ - BBB-	NR
Consolidated Obligations						
Federal Home Loan Bank	$ -	$ -	$ -	$ -	$ -	$ -
Federal Farm Credit Bank	-	-	-	-	-	-
Corporate						
Corporate Bonds	70,342,124	55,048,746	-	-	116,578,003	-
Sovereign Bonds	-	-	-	-	-	5,000,000
Certificates of Deposit	-	-	-	-	-	-
Short Term Investments						
Commercial Paper	1,350,270	30,615,023	1,130,093,622	2,082,528,248	-	286,948,621
Repurchase Agreements	-	-	-	-	-	357,556,000
	$ 71,692,394	$ 85,663,769	$ 1,130,093,622	$ 2,082,528,248	$ 116,578,003	$ 649,504,621

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Pool's policy for reducing this risk states that "Except for United States Treasury and Agency obligations, the fixed income portfolio shall contain no more than 5% exposure to any single issuer." At June 30, 2016, the Pool had approximately 7.37% of its investments in an overnight repurchase agreement with Bank of America that was fully collateralized by United States Treasury and Agency obligations.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. At June 30, 2016, the Pool did not have any investments denominated in foreign currencies.

Note 2: DEPOSITS, INVESTMENTS, AND SECURITIES LENDING TRANSACTIONS (Continued)

Securities Lending Transactions

Through a custodial agent, the Pool participates in a securities lending program whereby securities are loaned for the purpose of generating additional income. The Pool lends securities from its investment portfolios on a collateralized basis to third parties, primarily financial institutions. The market value of the required collateral must initially meet or exceed 102% of the market value of the securities loaned, providing a margin against a decline in the market value of the collateral, and requires additional collateral if the collateral value falls below 100%. At June 30, 2016 there was $1,847,868 of securities out on loan. There are no restrictions on the amount of securities that may be loaned. The types of securities available for loan during the year ended June 30, 2016, included U. S. Government securities, U. S. Government Agencies and corporate bonds. The contractual agreement with the Pool's Custodian provides indemnification in the event the borrower fails to return the securities lent or fails to pay the Pool income distribution by the securities' issuers while the securities are on loan. Cash was received as collateral for these loans. The Pool cannot pledge or sell collateral securities without a borrower default. The Pool invests cash collateral received; accordingly, securities purchased with cash collateral are recorded as an asset. A corresponding liability is recorded as the Pool must return the cash collateral to the borrower upon the expiration of the loan. All securities loaned can be terminated on demand by either the Pool or the borrower. Income in the amount of $23,412 was generated through securities lending transactions in the year ended June 30, 2016.

NOTE 3: NET POSITION RESTRICTED FOR POOL PARTICIPANTS

Monies are accumulated to meet administrative expenses related to the management of the Pool and to cover losses resulting from fluctuations in the investment market. The administrative fee is set and reviewed quarterly by the Treasurer's Office and may be increased or decreased, as needed, to maintain this account at an amount of no more than 1% of the net position held for participant accounts. These accounts are considered held on behalf of the participants but are not considered distributed to their accounts. Other undistributed amounts held on behalf of the participants include the differences between the fair value of the investment and the amortized cost of the investments.

NOTE 4: RELATED PARTY TRANSACTIONS:

The Pool reimbursed the Treasurer's Office $586,481 for various expenses including banking and investment functions which are administrative expenses in the financial statements.

The Pool provided no services to other state agencies during the fiscal year.

NOTE 5: SUBSEQUENT EVENTS:

Management has evaluated all events subsequent to the statement of net position date of June 30, 2016 through the date of issuance of these financials, September 21, 2016.

SOUTH CAROLINA STATE TREASURER'S OFFICE
SOUTH CAROLINA LOCAL INVESTMENT POOL

SCHEDULE OF NET POSITION IN POOL PARTICIPANT'S ACCOUNTS
JUNE 30, 2016

Account No.	Account Name	Balance
1000	Town Of Prosperity	$ 33,801.32
1001	City Of Sumter	5,406,699.53
1002	Town Of Winnsboro	489,539.66
1003	City Of Myrtle Beach	10,523,375.55
1004	City Of Aiken	33,451,453.50
1005	City Of North Charleston	51,752,916.17
1007	Town Of Pelion	476,336.78
1009	City Of Myrtle Beach	417,884.11
1017	Town Of Edgefield	286,438.79
1019	Town Of Pelion	16,805.91
1021	City Of Georgetown	7,887,585.65
1022	City Of Lake City	277,213.10
1024	Town Of Pine Ridge	147,553.26
1025	City Of Simpsonville	1,022.72
1026	Town Of Jackson	287,631.70
1027	City Of Seneca	1,358.59
1028	City Of Seneca	9,198.30
1029	Town Of Winnsboro	28,296.22
1031	Town Of North	43,288.30
1032	Richland Co. S/D 2	63,687.96
1033	Grand Strand Water And Sewer	4,745.61
1034	Grand Strand Water And Sewer	17,069.21
1035	City Of Isle Of Palms	1,615,147.21
1036	City Of Hanahan	4,399,088.04
1038	City Of Hanahan	674,559.80
1039	Aiken County Treasurer College	65,681.99
1040	Lower Savannah Cog	202,259.01
1041	Town Of Winnsboro	137,575.02
1042	City Of Greenville	38,212,438.69
1049	City Of Florence	47,247,450.17
1057	Upper Savannah Cog	474,846.64
1058	Town Of Trenton	356,567.08
1059	Town Of Johnston	312,693.01
1060	City Of Orangeburg	12,023,671.18
1061	Town Of Mccormick	333,621.27
1062	City Of Bamberg	1,008.57
1063	City Of Bamberg	1,770,383.14
1066	Aiken Co. Consolidated School	36,073,616.77
1067	Aiken Co. Consolidated School	18,257,142.82
1068	Aiken Co. Consolidated School	24,258.21
1069	Richland Co. S/D 2	90,790.14
1071	Anderson County S/D 2	5,727,175.30
1073	Spartanburg Co. S/D	3,486,144.12
1074	Spartanburg Co. S/D	1,083,459.14
1080	City Of Isle Of Palms	3,114,401.66
1081	City Of Newberry	598,688.59
1082	City Of Newberry	79,034.66
1084	Union County Schools	3,540,434.03
1086	City Of Abbeville	4,544.89
1087	City Of Abbeville	376,368.92
1088	Upper Savannah Cog	50,789.76
1089	Darlington County Treasurer	60,050,250.80
1090	Oconee County School District	14,724,431.48
1091	Oconee County School District	1,278,384.86
1093	Charleston Co School District	134,101.06
1094	City Of Bishopville	894,600.33
1095	City Of Bishopville	1,087,396.64
1096	Greenville Water System	23,767,267.25
1098	Town Of Ridge Spring	81,583.07

SOUTH CAROLINA STATE TREASURER'S OFFICE
SOUTH CAROLINA LOCAL INVESTMENT POOL

SCHEDULE OF NET POSITION IN POOL PARTICIPANT'S ACCOUNTS
JUNE 30, 2016

1100	Charleston Co School District	25,776,545.13
1101	Town Of Ridge Spring	257,289.12
1105	City Of North Augusta	64,499.96
1106	City Of North Augusta	1,123,072.32
1109	Town Of Walhalla	146,068.36
1110	Town Of Ridge Spring	1,520.36
1113	Catawba Reg. Planning Council	660,323.33
1114	Fairfield County Treasurer	1,823,918.84
1115	City Of Sumter	2,053,034.33
1126	Newberry County Treasurer	2,040,681.43
1128	City Of Rock Hill	8,537,623.24
1131	Town Of Edgefield	349,424.84
1132	Spartanburg Co. S/D	5,960,723.87
1133	Spartanburg Co. S/D	7,998.00
1134	Dorchester County S/D 2	38,567,073.67
1135	Dorchester County S/D 2	10,289,309.07
1136	Mount Pleasant Waterwork & Sewer	11,150,467.08
1137	Town Of Summerville	6,042,604.13
1139	City Of Chester	186,256.26
1140	City Of Chester	19,880.46
1141	City Of Chester	114,031.96
1142	City Of Lancaster	5,129,453.58
1143	Central Midlands Cog	12,879.14
1150	Lexington Co S/D 5	21,097,575.41
1152	City Of Woodruff	1,982.41
1154	Mount Pleasant Water & Sewer	495,716.82
1155	Mount Pleasant Water & Sewer	7,772,818.67
1157	Spartanburg Co. S/D	3,112,725.03
1159	Town Of Pelion	106,599.86
1160	Town Of Richburg	367,319.97
1162	Town Of Winnsboro	613,305.53
1163	S.C. Appalachian Cog	654,836.98
1164	Town Of Winnsboro	234,084.90
1165	City Of Charleston Housing Authority	718,270.32
1166	City Of Charleston Housing Authority	465,973.10
1167	Aiken County Treasurer	2,548.07
1170	Lexington Co S/D 5	5,505,020.16
1172	Town Of Lexington	7,226,002.24
1173	Chesterfield Co S/D	7,271,851.89
1174	City Of Sumter	5,084.40
1175	Town Of Winnsboro	686,676.49
1177	Spartanburg Water System	5,252.28
1178	City Of Clemson	1,038,127.20
1181	Town Of Jackson	1,424.77
1182	Richland Co S/D 1	48,983,029.02
1183	Town Of Jackson	291,214.04
1186	Town Of Jackson	64,757.99
1187	City Of Forest Acres	257,871.13
1190	Upper Savannah Cog	188,361.79
1191	Town Of Summerville	208,955.63
1192	Town Of Irmo	1,326,812.37
1193	Town Of Irmo	3,064,549.00
1195	Catawba Reg. Council Of Gov't.	1,994,389.69
1197	Town Of Blythewood	211,218.06
1199	Town Of Winnsboro	1,882,330.40
1200	City Of Orangeburg	182,450.53
1204	Greenville County Treasurer	69,598,983.89
1205	Parker Sewer & Fire Subdistrict	7,019,807.66
1206	Town Of Irmo	6,738.99
1207	Lowcountry Cog	22,518.27

SCHEDULE OF NET POSITION IN POOL PARTICIPANT'S ACCOUNTS
JUNE 30, 2016

1210	City Of Chester	25,785.59
1212	Florence Co S/D 3	409,789.05
1214	City Of Chester	78,159.22
1218	York County Treasurer	333,438,388.23
1220	Oconee County School District	241,511.22
1222	City Of Abbeville	7,004.81
1223	Comm Of Pub Wks Of City Of Isle	3,866,036.14
1224	City Of Union	25,069.78
1227	Lexington County S/D #4	11,025,732.68
1228	City Of Greenwood	2,512,426.45
1230	Union County Treasurer	1,609,700.35
1235	Clarendon County S/D 3	1,229.05
1236	Spartanburg Co. S/D	1,292,929.01
1238	Metropolitan Sewer Subdistrict	935,178.99
1242	Town Of Edgefield	74,069.02
1243	Town Of Edgefield	204,822.64
1244	Town Of Edgefield	269,651.95
1245	Town Of Seabrook Island	3,639,456.90
1246	Spartanburg Sanitary Sewer Dist	2,994,173.50
1248	Orangeburg Co S/D #4	262,847.10
1249	City Of Abbeville	1,936.63
1251	City Of Spartanburg	17,199,779.36
1253	City Of Abbeville	778,993.90
1254	St. Andrews Public Srvc	6,290,144.85
1256	Town Of Winnsboro	458,513.89
1257	Town Of Winnsboro	195,944.90
1258	Chester Metropolitan District	1,303,294.34
1259	Chester Sewer District	279,953.12
1260	The Health Services District Of	118,333.14
1262	Mount Pleasant Water & Sewer	4,604.24
1263	Mount Pleasant Water & Sewer	1,246.52
1264	Mount Pleasant Water & Sewer	263,701.43
1270	Clarendon County Treasurer	4,562,736.73
1271	City Of Lancaster	265,142.90
1273	Lexington County S/D #2	10,595,168.01
1275	Lexington County Treasurer	114,598,739.33
1276	Lexington County S/D #1	54,678,082.31
1277	Comm Of Pub Wks Of City Of Isle	221,690.42
1279	Greenville County Schools	170,468,616.90
1280	Lexington County S/D #3	10,283,646.35
1289	Berkeley Charleston Dorchester	50,806.12
1290	Bcd Council Of Governments	118,279.13
1291	City Of Greenwood	744,097.53
1292	City Of Greenwood	85,639.84
1295	Mt. Pleasant Water & Sewer Com	4,278.94
1296	Anderson County	1,973,254.20
1297	Mccormick Comm Of Public Works	336,562.25
1298	Mccormick Comm Of Public Works	32,893.36
1305	York County Treasurer	18,368,735.33
1307	Beaufort County Treasurer	74,614,859.77
1308	Lexington County Treasurer	6,612,915.55
1309	Lexington County Treasurer	5,827,772.40
1312	Lexington County Treasurer	19,698,077.65
1314	City Of North Augusta	950,045.63
1315	City Of North Augusta	274,309.51
1318	Fairfield County Treasurer	10,063,660.28
1323	Town Of Clover	300,919.79
1331	Town Of Springdale	136,700.59
1332	Town Of Ridge Spring	16,833.22
1333	Newberry County Treasurer	11,252,604.78

SCHEDULE OF NET POSITION IN POOL PARTICIPANT'S ACCOUNTS
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1334	Newberry County Treasurer	16,195,830.29
1339	Sumter Co Council/Treasurer	1,067.82
1340	City Of Isle Of Palms	1,145,044.18
1341	Seabrook Island Water & Sewer	2,977,593.05
1347	Edgefield County School District	2,836,101.60
1352	City Of Camden	5,116,098.81
1353	Town Of Clover	152,528.83
1357	Lexington County S/D #4	6,294.64
1359	City Of Hanahan	2,226,768.88
1365	City Of Hanahan	2,173,178.74
1367	Town Of Cordova	110,779.05
1370	Town Of Trenton	5,382.51
1371	Town Of Trenton	41,230.99
1372	Lancaster County S/D	24,366,103.14
1374	Clarendon County Treasurer	233,626.89
1377	City Of Union	6,056,509.80
1379	City Of Georgetown	4,793,974.50
1380	City Of Georgetown	2,305,054.53
1382	Town Of Johnston	17,115.03
1385	Town Of Edisto Beach	2,497,194.70
1386	Town Of Edisto Beach	1,277,380.82
1387	Town Of Edisto Beach	624,376.36
1388	Town Of Edisto Beach	149,037.82
1389	Town Of Edisto Beach	1,858,514.93
1390	Town Of Edisto Beach	2,041.36
1392	City Of Clinton	947,858.41
1393	Edgefield County Treasurer	9,533,346.02
1395	Spartanburg Co. S/D	369,571.66
1396	City Of York	13,771.56
1397	City Of York	9,880.64
1398	City Of Lancaster	123,541.10
1399	City Of Lancaster	411,237.12
1401	City Of Bamberg	2,448.35
1405	Town Of Prosperity	8,301.10
1407	Dsrf-Pioneer Rural Water Distric	109,616.72
1421	City Of Isle Of Palms	2,235,384.24
1422	Richland Co. S/D 2	22,269,866.57
1426	Richland Co. S/D 2	45,450,279.50
1428	City Of Clinton	12,764.41
1429	Dsrf-Chester Sewer District	95,535.09
1433	Wade Hampton	2,873.50
1437	R.D. Anderson Applied Tech	6,131.38
1438	Florence County Treasurer	148,050.03
1439	City Of Lancaster	265,437.09
1440	City Of Lancaster	256,799.19
1441	Florence Co S/D 2	3,070,803.17
1442	Florence Co S/D 4	1,015,132.22
1443	Florence Co S/D 5	1,761,511.81
1445	Florence Co S/D 1	33,854,695.58
1446	Clarendon County Treasurer	384,073.81
1447	Richland County Treasurer	135,832,026.91
1448	Town Of Arcadia Lakes	710,439.82
1451	Town Of Edisto Beach	354,158.67
1452	Laurens County Treasurer	21,585,547.93
1453	City Of Georgetown	31,363.93
1456	City Of Greenwood	70,146.85
1457	Town Of Edisto Beach	810,763.22
1463	Western Piedmont	403,961.73
1465	Clarendon County Treasurer	415,175.61
1466	Spartanburg Co. S/D	1,028.92

SOUTH CAROLINA STATE TREASURER'S OFFICE
SOUTH CAROLINA LOCAL INVESTMENT POOL

SCHEDULE OF NET POSITION IN POOL PARTICIPANT'S ACCOUNTS
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1471	York County Treasurer	349,427.10
1489	Dillon County Board Of Education	1,897.74
1493	City Of Westminster	159,704.59
1499	Fort Mill School District 4	37,680,417.82
1500	Chester County Treasurer	1,248,376.19
1501	Chester County Treasurer	711,929.02
1502	Chester County Treasurer	3,395,703.89
1510	York County S/D 1	8,705,263.90
1512	City Of Greenwood	153,468.33
1514	Greenville County Schools	10,196,622.15
1515	Chester County Treasurer	4,421,151.61
1519	Rock Hill S/D 3 Of York Co.	31,500,174.45
1520	City Of North Augusta	154,033.66
1521	City Of North Augusta	1,032,266.72
1526	Mt. Pleasant Waterworks Escrow	693,214.23
1527	Charleston Co School District	253,064.03
1535	Pioneer Rural Water District	718,498.99
1536	Pioneer Rural Water District	133,057.62
1538	Pioneer Rural Water District	1,342.94
1539	York County Treasurer	34,642,748.72
1541	Town Of Port Royal	105,100.47
1543	Bamberg School District One	137,583.31
1545	Lancaster Co Natural Gas Auth	4,118,680.72
1552	City Of Mauldin	715,189.75
1554	Town Of Sullivan'S Island	114,131.33
1562	Fairfield County Treasurer	111,918.84
1580	Spartanburg Co. S/D	581,225.31
1581	Dsrf-City Of Traveler'S Rest	18,493.50
1595	Chester County School District	1,258,345.81
1596	City Of Isle Of Palms	1,383,944.98
1599	Greenville County Schools	4,835,374.19
1603	Orangeburg School District 5	15,764,381.29
1605	Clover School District Two	15,978,813.53
1609	Greenville Health System	29,245,474.05
1610	Greenville Health System	2,963,243.81
1613	City Of Myrtle Beach	342,610.62
1616	Richland County Treasurer	1,422,342.04
1617	City Of North Augusta	5,764,103.32
1618	City Of North Augusta	274,598.74
1619	City Of North Augusta	495,330.68
1622	Riverbanks Park Commission	1,344,033.44
1630	Orangeburg Co. S/D Three	4,091,043.94
1635	Upper Savannah Cog	219,073.56
1642	St. Andrews Public Srvc	1,261,439.01
1651	York County S/District #1	62,955.45
1652	City Of Mauldin	1,668,749.33
1654	Chester County School District	8,375,791.25
1658	Joint Municipal Water & Sewer	11,349,870.08
1659	Joint Municipal Water & Sewer	1,199.65
1662	Town Of Mccormick	281,389.41
1663	Town Of Mccormick	281,389.41
1664	Town Of Mccormick	124,864.94
1665	Town Of Mccormick	188,605.07
1671	City Of Isle Of Palms	289,891.11
1672	City Of Georgetown	1,388,825.01
1673	Town Of Blythewood	203,176.81
1675	Town Of Blythewood	257,696.92
1680	City Of Hanahan	985,150.71
1689	Chester Co. Natural Gas Authorit	104,760.14
1699	City Of Fountain Inn	15,524.90

SCHEDULE OF NET POSITION IN POOL PARTICIPANT'S ACCOUNTS
JUNE 30, 2016

1702	Lancaster County	23,771,498.05
1703	Greenville Health System	1,069,005.23
1714	City Of Georgetown	3,205.59
1715	York County Treasurer	469,565.19
1716	St. John'S Fire District	10,844.31
1718	Lexington Med Center Operating	11,520,244.62
1726	City Of Forest Acres	881,407.14
1730	City Of Myrtle Beach	722,302.52
1731	City Of New Ellenton	150,244.62
1733	Town Of Lowrys	154,471.29
1740	City Of Rock Hill	3,692,323.93
1741	City Of Rock Hill	1,438,930.70
1744	Town Of Lyman	356,953.16
1745	Town Of Lyman	1,311,444.91
1754	City Of North Augusta	653,135.97
1755	City Of North Augusta	495,218.31
1760	City Of Sumter	2,731,089.60
1762	City Of Hanahan	464,465.20
1775	Eleventh Circuit Solicitor	85,386.10
1779	Town Of Rockville Council	172,393.58
1784	City Of Conway	3,839.43
1792	Newberry County Treasurer	2,565,523.85
1793	Town Of Winnsboro	348,871.34
1794	City Of Clinton	22,604.85
1798	Town Of Winnsboro	99,929.12
1800	Laurens County Water Sewer Comm	1,270,199.88
1808	City Of Walterboro	116,761.19
1809	Pioneer Rural Water District	151,380.55
1810	Town Of Jackson	52,304.04
1817	Williamsburg County S/D	7,226,871.20
1827	Williamsburg County Treasurer	288,619.28
1828	Dorchester County Treasurer	4,064,823.62
1830	Dorchester County Treasurer	32,250,725.33
1831	Dorchester County Treasurer	7,390,740.38
1832	Dorchester County Treasurer	32,759,322.17
1833	Dorchester County Treasurer	3,967,647.99
1835	Dorchester County Treasurer	6,615,170.05
1840	York County Treasurer	9,545,962.56
1842	City Of Mauldin	1,737,552.60
1843	City Of Abbeville	600,967.81
1845	Dsrf-Big Creek Wtr & Swr Dist	208,073.22
1847	Dillon County Board Of Education	1,643.47
1849	Dillon County Board Of Education	1,258.13
1850	Richland County Treasurer	246,682.51
1852	Dsrf-City Of Traveler'S Rest	30,447.91
1854	Dsrf-Moncks Corner Public Wks	412,880.29
1856	Spartanburg Sanitary Sewer Dist	2,257,191.28
1857	City Of North Augusta	847,344.83
1861	Richland County Treasurer	680,530.71
1864	Oconee County School District	7,846,338.39
1867	Bcd Council Of Governments	219,220.99
1868	Town Of Fort Lawn	19,556.06
1871	City Of Mauldin	63,285.09
1873	City Of Clinton	998,723.87
1874	Town Of Walhalla	1,303,277.57
1875	York County Treasurer	3,875,061.11
1876	York County Treasurer	39,196,072.97
1880	Richland County Treasurer	754,818.31
1882	City Of North Augusta	1,337,783.52
1883	Newberry County Treasurer	484,854.62

SOUTH CAROLINA STATE TREASURER'S OFFICE
SOUTH CAROLINA LOCAL INVESTMENT POOL

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1887	Newberry County Treasurer	1,255.71
1888	Lexington Co S/D 3	676,460.24
1889	City Of Camden	1,103,334.92
1892	Newberry County Treasurer	145,347.60
1893	Florence County Treasurer	25,133,388.79
1895	Clarendon County S/D 3	1,217.94
1897	Newberry County Treasurer	314,430.75
1898	Greenwood County Treasurer	21,238,398.20
1900	City Of Isle Of Palms	222,948.39
1905	City Of North Augusta	175,002.70
1907	Greenville Water System	8,864,175.41
1909	Oconee County Treasurer	8,600,067.29
1911	City Of North Augusta	771,905.65
1912	Dsrf-Mccormick County	2,567.15
1915	York County Treasurer	73,843,854.28
1916	City Of Newberry	1,063,720.95
1917	City Of Newberry	853,543.28
1924	Lancaster Water & Sewer District	9,187,797.78
1925	Lancaster Water & Sewer District	11,108,277.75
1927	York County Treasurer	7,991,883.04
1929	Newberry County Treasurer	158,773.39
1936	Greenville Health System	8,361,403.42
1939	Lowcountry Council Of Government	256,139.88
1941	Powdersville Water District	1,421.33
1943	Dsrf-City Of Anderson	30,572.90
1944	Dsrf-City Of Anderson	109,076.48
1947	City Of Isle Of Palms	326,520.06
1948	Sumter County Council/Treasurer	2,280,706.35
1954	Dorchester County S/D 2	13,015,602.61
1956	City Of Columbia	138,760,340.57
1966	Ds-Town Of Lexington	1,287,195.42
1973	Greer Comm Public Works	3,061,777.64
1977	Dsrf-Southside Rural Comm Water	172,569.74
1983	Richland County Treasurer	936,425.44
1988	Dsrf-Town Of Pendleton	115,428.23
1989	Calhoun County Treasurer	1,767,390.66
1991	Dsrf-Pioneer Rural Water Distric	193,166.22
1992	Greenwood County Treasurer	2,056,109.45
1995	Richland Co. Rec Comm 2009B	29,987.82
1996	Pioneer Rural Water District	69,465.19
2003	Dsrf-City Of Abbeville	130,718.89
2004	City Of Columbia	7,154,459.70
2005	Central Carolina Tech. College	8,107,868.16
2006	Anderson County S/D 3	5,355.80
2007	Old Fort Fire District	1,636,050.66
2009	Anderson County S/D 4	16,302.87
2010	Anderson County S/D 5	33,690,158.36
2011	Anderson County S/D 1	13,036,870.18
2012	Anderson 1 &2 Career & Tech Ctr	895,301.95
2013	Anderson County Board Of Ed.	72,545.26
2015	City Of Sumter	211,590.86
2016	North Charleston Sewer District	5,267,370.10
2017	North Charleston Sewer District	13,768,536.46
2018	Ds-City Of Barnwell	247,776.52
2023	City Of Columbia	9,404,442.33
2025	Newberry County Treasurer	64,605.59
2026	Town Of Ridge Spring	325,557.64
2029	Greenville Water System	2,174,278.60
2035	Newberry County Treasurer	131,633.00
2037	City Of Clinton	1,094,486.71

SCHEDULE OF NET POSITION IN POOL PARTICIPANT'S ACCOUNTS
JUNE 30, 2016

2038	Richland County Treasurer	67,955.10
2045	Richland County Treasurer	1,923,171.10
2050	Charleston Co. Park & Recreation	161,676.57
2051	Newberry County Treasurer	111,127.97
2052	Dsrf-City Of Union	141,483.64
2057	Dsrf-City Of Union	110,499.96
2065	Dorchester County Treasurer	2,273,223.55
2066	City Of Charleston	121,107.06
2067	City Of Isle Of Palms	168,321.43
2071	Calhoun County Treasurer	3,402,950.65
2073	City Of Orangeburg	1,594,350.28
2074	City Of Orangeburg	1,520,686.08
2081	Charleston Co School District	46,221.38
2082	Dsrf-Darlington County W&S Auth.	343,862.23
2083	Charleston Co School District	49,519,426.87
2084	Dillon County Board Of Education	7,807.26
2085	Oconee County Treasurer	319,332.26
2091	Sumter County School District	82,144.95
2092	South Island Psd	5,624,432.86
2093	City Of Fountain Inn	507,438.58
2094	City Of Fountain Inn	1,034.34
2095	Charleston County Treasurer	100,826,413.87
2096	Richland-Lexington Airport Dist	8,612,046.13
2105	Richland County Treasurer	365,208.59
2106	Beaufort County Treasurer	1,815,659.65
2113	Lancaster County School District	1,014,094.23
2114	Newberry County Treasurer	5,003,327.71
2117	Beaufort County Treasurer	684,067.34
2119	Beaufort County Treasurer	22,493,064.29
2120	Beaufort County Treasurer	7,084,650.22
2122	Beaufort County Treasurer	114,155.08
2125	James Island Charter High School	3,546,550.98
2126	Dsrf-City Of Union	177,009.12
2127	Spartanburg County Treasurer	78,644,148.61
2128	Lugoff-Elgin Water Authority	1,180,755.95
2130	Santee Lynches Regional Cog	551,655.43
2133	Town Of Mount Pleasant	20,373,164.64
2134	Town Of Mount Pleasant	22,400,494.50
2137	Georgetown County Treasurer	47,208,123.24
2138	City Of Charleston Housing Auth	1,543,129.78
2139	Mount Pleasant Water & Sewer	447,420.48
2140	City Of Clinton	1,259,165.57
2141	City Of Clinton	202,290.10
2142	City Of Charleston	58,839,527.49
2144	City Of Charleston	7,090,840.91
2145	City Of Charleston	28,362,035.99
2147	Newberry County Water & Sewer	407,534.96
2148	Newberry County Water & Sewer	428,843.80
2149	Newberry County Water & Sewer	201,820.15
2150	Newberry County Water & Sewer	647,712.29
2151	Spartanburg Co. S/D	259,218.39
2152	Calhoun County Treasurer	239,513.00
2153	Dorchester County Treasurer	3,779.61
2154	Lancaster Water & Sewer District	1,058,302.83
2155	City Of Charleston	2,267,493.94
2161	Oconee County Treasurer	7,112.64
2162	City Of Charleston	3,392,701.52
2163	City Of Sumter	33,197.63
2164	Greenville Water System	837,934.70
2166	Edgefield Co Water&Sewer Author	494,507.30

SOUTH CAROLINA STATE TREASURER'S OFFICE
SOUTH CAROLINA LOCAL INVESTMENT POOL

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2167	Town Of Irmo	1,009.76
2169	Beaufort County Treasurer	678,693.97
2170	Richland County Treasurer	11,499,627.10
2174	Beaufort County Treasurer	5,053,032.45
2175	Richland County Treasurer	134,628.95
2177	Dorchester County Treasurer	1,785.84
2178	Lexington County Treasurer	158,088.48
2179	Richland County Treasurer	577,755.08
2181	Richland County Treasurer	2,887,444.93
2182	City Of Abbeville	50,532.98
2183	Horry County Treasurer	55,640,063.24
2184	Horry County Treasurer	33,569,452.81
2185	Lancaster County Treasurer	7,917,476.29
2186	Town Of Mount Pleasant	14,939,410.18
2187	Horry County Treasurer	35,947,169.01
2188	Duncan Chapel Fire District	302,094.70
2191	Broad Creek Public Service Dist	1,464,460.04
2192	Calhoun County Treasurer	530,238.04
2194	Edgefield Co Water&Sewer Author	1,785,448.67
2195	Horry County Treasurer	10,567,920.09
2199	Newberry County Treasurer	140,710.71
2201	Greenville County Schools	39,191,386.47
2203	City Of Greenwood	670,206.13
2206	Beaufort County Treasurer	3,579,854.80
2209	City Of Columbia	37,643.03
2210	Dsrf-City Of Abbeville	47,026.77
2211	Oconee County Treasurer	148,154.29
2212	Newberrry County Treasurer	1,282.30
2213	City Of Clinton	85,845.27
2214	Newberry County Treasurer	126,849.12
2224	Mount Pleasant Waterworks	995,993.20
2225	Newberry County Treasurer	34,621.57
2226	Aiken County Treasurer Acps	4,661.84
2227	Lexington County Treasurer	26,742,942.20
2228	Richland County Treasurer	1,644,617.43
2230	Richland County Treasurer	7,951,286.99
2232	Lexington County Treasurer	10,317.85
2233	Richland County Treasurer	10,977,708.33
2234	Dsrf-City Of Union	123,329.95
2235	Dsrf-City Of Union	72,326.35
2236	City Of Fountain Inn	85,139.19
2237	City Of Fountain Inn	23,074.51
2238	Ds-Joint Municipal Water & Sewer	1,367,481.15
2239	Ds-Joint Municipal Water & Sewer	1,530,255.09
2240	Town Of Central	50,417.42
2241	Town Of Central	100,834.88
2242	Town Of Central	272,253.11
2243	Town Of Central	302,503.90
2244	Lancaster Water & Sewer District	519,780.95
2245	Town Of Pawleys Island	3,030,281.42
2246	City Of Charleston	8,338,598.90
2248	Greenwood County Treasurer	6,535,367.29
2250	Laurens County Treasurer	329,448.35
2251	City Of Clinton	300,061.07
2252	Dsrf-City Of North Augusta	796,841.73
2253	Kershaw Cty & Lee Cty Reg Water	785,642.82
2254	Town Of Varnville	100,826.36
2255	Kershaw Cty & Lee Cty Reg Water	1,366,373.77
2257	Town Of Mount Pleasant	6,829,604.05
2258	Richland County Treasurer	102,161,586.51

SCHEDULE OF NET POSITION IN POOL PARTICIPANT'S ACCOUNTS
JUNE 30, 2016

2259	Richland County Treasurer	13,856,584.36
2262	Dsrf-D.P.U. City Of Orangeburg	1,634,316.96
2263	Richland County Treasurer	17,853,484.00
2264	Dsrf-City Of Myrtle Beach	731,771.16
2265	Dsrf-D.P.U. City Of Orangeburg	259,137.38
2266	Dsrf-D.P.U. City Of Orangeburg	59,458.20
2269	Lexington County Treasurer	2,686,955.22
2270	Marion County School District	4,524,189.38
2271	Spartanburg Sanitary Sewer Dist	2,494,668.67
2272	City Of Clinton	21,101.06
2273	North Charleston Sewer District	1,306,631.59
2274	Newberry Co Water & Sewer Author	75,339.44
2275	Dsrf-Town Of Sullivans Island	91,190.77
2276	Richland County Treasurer	15,792,357.81
2277	Lexington County Treasurer	1,801,543.50
2278	Lexington County Treasurer	385,071.58
2279	Greenville County Schools	11,337,272.02
2281	North Charleston Sewer District	14,749,062.57
2282	Lexington County Treasurer	2,305,252.35
2283	Mount Pleasant Waterworks	4,130,067.21
2284	Richland County Treasurer	4,279,482.60
2285	Ds-Greenville Health System	541,496.06
2286	Startex-Jackson-Wellford-Duncan	724,316.74
2288	Greenville Water System	2,071,124.14
2289	Greenville Water System	362,769.88
2290	Dsrf-Town Of Jackson	43,164.20
2291	Dsrf-City Of North Augusta	795,451.75
2292	Lexington County Treasurer	447,928.29
2294	Richland County Treasurer	2,009,748.71
2295	Charleston County Schools	16,115.81
2296	Laurens Commission Of Public Wor	804,560.88
2297	Charleston County School Distric	1,920,745.48
2298	Charleston County School Distric	949,431.95
2299	Charleston County School Distric	36,411,355.88
2300	Dorchester County Treasurer	456,764.80
2302	Laurens County Water & Sewer Com	1,418,128.78
2303	Aiken County Treasurer One Cent	16,395,234.60
2304	Aiken County Public Schools	44,780.91
2305	Chester County Treasurer	7,522,451.10
2306	Richland County Treasurer	46,233,502.79
2307	Richland County Treasurer	13,356,808.27
2308	Laurens County Treasurer	2,039,673.33
2309	Georgetown County Dsn Board	401,895.61
2311	City Of Clinton	610,647.42
2312	Ds-City Of Charleston	20,906,131.22
2313	City Of Sumter	28,318,552.38
2314	Lexington County Treasurer	6,382,733.34
2315	Greenville County School Distric	44,114,694.89
2316	Lexington County Treasurer	725,410.80
2317	Lexington Co. Treasurer Series	11,502,108.26
2319	Mt. Pleasant Waterworks Water Im	160,851.47
2320	Mt. Pleasant Waterworks Waste Im	1,616,980.07
2321	Richland Co. Treasurer Series A	5,109,335.07
2322	Lexington Co. Treasurer Sd1 2015	4,017,196.01
2323	Newberry Co. Treasurer Cpst Fire	39,411.58
2324	City Of Dillon Sc Water Pollutio	45,747.86
2325	Anderson School District Two	669,304.82
2326	Startex-Jackson-Wellford-Duncan	2,761,914.32
2328	York County	109,254,392.52
2329	Lancaster Co Water & Sewer Distr	9,021,426.80

SOUTH CAROLINA STATE TREASURER'S OFFICE
SOUTH CAROLINA LOCAL INVESTMENT POOL

SCHEDULE OF NET POSITION IN POOL PARTICIPANT'S ACCOUNTS
JUNE 30, 2016

2330	Spartanburg Sanitary Sewer Dist	249,426.10
2331	Cherokee County Treasurer	7,514,800.45
2332	Aiken County Treasurer School Bo	87,916,945.57
2333	Charleston County School Distric	23,319,350.42
2334	Charleston County School Distric	8,009,789.18
2335	Cherokee County School District	67,346,329.89
2336	Aiken Co Control Account	18,023,235.14
2337	Aiken Co Capital Projects 2	15,023,048.19
2338	Calhoun Co Rural Fire District	1,001,161.34
2339	North Charleston General Fund	580,456.86
2340	Dsrf - City Of Goose Creek	479,537.29
2341	Dsrf- City Of Darlington	14,701.78
2342	Lexington County Treasurer	6,559,942.86
2343	Newberry County Treasurer	980,299.98
2344	Horry County School District	150,694,935.07
2345	Richland County Treasurer	10,002,385.69
2346	Richland County Treasurer	11,404,284.05
2347	Greenville Co School District	9,596,698.40
2348	Lexington County Treasurer	102,616,408.47
2349	Lexington County Treasurer	9,524,346.36
2350	Newberry County Water & Sewer	100,021.06
2351	Aiken County Treas Gob 2016	9,659,421.32
		$ 4,822,193,831.70

1704 Laurel Street
Columbia, SC 29201

P.O. Box 2411
Columbia, SC 29202

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Mr. George L. Kennedy, III, CPA
State Auditor
Office of the State Auditor
Columbia, South Carolina

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the statement of fiduciary net position and statement of changes in fiduciary net position of the South Carolina Local Government Investment Pool (the "*Pool*"), an investment trust fund of the State of South Carolina as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements, and have issued our report thereon dated September 21, 2016.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Pool's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pool's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pool's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Pool's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Columbia, South Carolina
September 21, 2016

The Hobbs Group, P.A.

South Carolina Office of the State Treasurer

Report on Financial Statements

For the Year Ended June 30, 2015

South Carolina
Office of the State Auditor

George L. Kennedy, III, CPA
State Auditor

November 30, 2016

The Honorable Curtis M. Loftis, Jr., State Treasurer
State of South Carolina
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Office of the State Treasurer for the fiscal year ended June 30, 2015, was issued by Elliott Davis Decosimo, LLC, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

George L. Kennedy, III

George L. Kennedy, III, CPA
State Auditor

GLKIII/cwc

1401 Main Street, Suite 1200 Columbia, S.C. 29201 (803) 253-4160 (803) 343-0723 FAX osa.sc.gov

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elliott davis
decosimo

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South Carolina Office of the State Treasurer

and

Mr. George L. Kennedy, III, CPA
State Auditor
South Carolina Office of the State Auditor
Columbia, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Carolina Office of the State Treasurer (the "Office") as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the South Carolina Office of the State Treasurer as of June 30, 2015, and the respective changes in financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Reporting Entity

As described in Note 1.A., the accompanying financial statements of the Office are intended to present the financial position and the respective changes in financial position of certain governmental activities and fiduciary funds comprising the reporting entity as defined by the Office. The accompanying financial statements exclude the South Carolina Tuition Prepayment Program, South Carolina Future Scholar 529 College Savings Plan, South Carolina Resources Authority, South Carolina Tobacco Settlement Revenue Management Authority, and South Carolina Local Government Investment Pool (the "Related Entities"), and all debt service transactions related to obligations of the State of South Carolina, its agencies, departments, and political subdivisions. They do not purport to, and do not present fairly, the financial position of the State of South Carolina as of June 30, 2015, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. The financial statements of the Related Entities were audited by other auditors as of and for the fiscal year ended June 30, 2015.

Implementation of New Accounting Standard

As described in Note 1.D. and Note 9 to the financial statements, the Office adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, effective July 1, 2014. Our opinions are not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedules, schedule of the proportionate share of the net pension liability, and schedule of contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2016 on our consideration of the Office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Office's internal control over financial reporting and compliance.

Elliott Davis Decosimo, LLC

Columbia, South Carolina
November 30, 2016

Management's Discussion and Analysis ("MD&A") of the South Carolina Office of the State Treasurer (the "Office") provides an overview of the Office's financial activities for the fiscal year ended June 30, 2015.

FINANCIAL HIGHLIGHTS

The Office prepared its financial statements on the Generally Accepted Accounting Principles ("GAAP") basis and follows pronouncements from the Governmental Accounting Standards Board ("GASB").

These financial statements do not include the transactions or balances from the South Carolina Tuition Prepayment Program, South Carolina Future Scholar 529 College Savings Plan, South Carolina Resources Authority, South Carolina Tobacco Settlement Revenue Management Authority, and South Carolina Local Government Investment Pool (the "Related Entities) and all debt service transactions related to obligations of the State of South Carolina (the "State"), its agencies, departments, and political subdivisions. The financial statements of the Related Entities were audited by other auditors as of and for the fiscal year ended June 30, 2015.

As of and for the fiscal year ended June 30, 2015:

- The Office's total net position decreased by $164,792 and its liabilities exceeded its assets (net position) by $6,599,253.
- The Office received $239,758,641 in appropriations from the State, substantially all of which was disbursed for general operations, student loans, and aid to subdivisions.
- The Office held $988,492,354 of cash and cash equivalents in an agency capacity.

USING THESE AUDITED FINANCIAL STATEMENTS

The audited basic financial statements presented in this document include both government-wide and fund financial statements.

Government-wide Statements:
Government-wide statements include a Statement of Net Position and a Statement of Activities. These statements display information about the Office as a whole. The government-wide financial statements of the Office are presented on the accrual basis of accounting and provide short-term and long-term information about the Office. The residual measure of the government is net position and represents assets and deferred outflows of resources less liabilities and deferred inflows of resources.

Fund Statements:
The fund financial statements include the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances. The governmental fund financial statements are presented on the modified accrual basis of accounting which focuses on the near term inflows and outflows of resources available for expenditure for the current fiscal year.

The Office provides banking and investment services for State agencies. The cash and cash equivalents held by the Office on behalf of the State and local governments are reported in the Fiduciary Funds. The Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position are presented on the accrual basis of accounting.

Statement of Net Position and Statement of Activities:
The Statement of Net Position provides a summary of the Office's financial condition at the end of the 2015 fiscal year; and reports all assets and liabilities using the accrual basis of accounting. The Statement of Activities reports the revenues and expenses for the fiscal year ended June 30, 2015.

SOUTH CAROLINA OFFICE OF THE STATE TREASURER
STATEMENT OF NET POSITION

	2015	2014
Current Assets	$ 1,402,771	$ 1,399,263
Total Assets	1,402,771	1,399,263
Deferred Outflows of Resources	576,267	—
Current Liabilities	1,296,134	1,168,805
Noncurrent Liabilities	6,744,234	374,323
Total Liabilities	8,040,368	1,543,128
Deferred Inflows of Resources	537,923	—
Unrestricted	(6,599,253)	(143,865)
Total Net Position	$ (6,599,253)	$ (143,865)

Statement of Net Position and Statement of Activities (Continued):

SOUTH CAROLINA OFFICE OF THE STATE TREASURER
STATEMENT OF ACTIVITIES

	2015	2014
Expenses		
Personnel Services	$ 4,961,550	$ 4,775,244
Travel	31,687	20,679
Supplies and Materials	145,090	237,606
Contracted Services	2,332,680	2,551,484
Student Loans – Teachers	1,065,125	905,230
Student Loans – Student Loan Corporation	5,089,881	4,847,955
Rent	329,065	306,232
Depreciation	—	7,518
Aid to Subdivisions	231,362,575	230,073,221
Total Expenses	245,317,653	243,725,169
General Revenues		
State Appropriations	239,758,641	238,064,637
Service Charges	5,099	10,468
Fines and Penalties	109,979	109,719
Investment Management Fees	2,700,000	2,699,986
Revenue from Other State Agencies	2,999,360	3,137,017
Other Income	165,000	185,187
	245,738,079	244,207,014
Transfers		
Remission to State General Fund	(585,218)	(382,203)
Total General Revenues and Transfers	245,152,861	243,824,811
Change in Net Position	(164,792)	99,642
Net Position, July 1, as Originally Reported	(143,865)	(243,507)
Implementation Effect of GASB Nos. 68 and 71	(6,290,596)	—
Net Position, July 1, as Restated *	(6,434,461)	(243,507)
Net Position, June 30	$ (6,599,253)	$ (143,865)

* The Office implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68* during the fiscal year ended June 30, 2015. Net position as of July 1, 2014 has been restated in accordance with these provisions. Information required to determine the restatement to beginning net position for the fiscal year ended June 30, 2014 was not available, and is therefore not restated. See Note 1.D. and Note 9 to the financial statements for further details regarding the restatement.

Operating revenues of the Office are largely dependent upon appropriations from the State legislature.

The Office received $239,758,641 in appropriations from the State legislature. These appropriations were spent for three purposes. The amount of $1,655,842 was spent primarily on the operations of the Office. The amount of $231,362,575 was disbursed as aid to various governmental subdivisions throughout the State. The amount of $6,155,006 was spent on student loans. Lastly, $585,218 was not spent by the Office and was remitted back to the State General Fund.

Fund Highlights:

Governmental Funds

The focus of the Office's governmental funds is to provide information regarding actual inflows and outflows of spendable resources. The General Fund is the chief operating fund of the Office. The General Fund's operating revenues are provided through appropriations from the State legislature. Revenues are not budgeted by the Office; therefore, expenditures are typically matched with appropriations so long as expenditures do not exceed budgeted appropriations. However, in the current year, $559,895 of appropriations went unspent and was remitted back to the State's General Fund. This resulted in an ending fund balance of $1,883 for the General Fund.

There are two major special revenue funds, the Aid to Subdivisions Fund and the State Treasurer's Office Earmarked Fund. The Aid to Subdivisions Fund distributes funds to various political subdivisions of the State based on amounts budgeted by the State. There was a surplus of $25,323 in State appropriations in the Aid to Subdivisions Fund that were not distributed during the fiscal year ended June 30, 2015. This surplus was remitted back to the State General Fund during the fiscal year, resulting in no change in fund balance and an ending fund balance of $0. The State Treasurer's Office Earmarked Fund accounts for revenues and transfers of appropriations earmarked for specific Office operations. As required by the earmark provisions, these amounts can only be spent on specific operational expenditures of the Office and therefore, the remaining fund balance is considered restricted. Expenditures exceeded State appropriations and other revenues by $125,336 during the fiscal year ended June 30, 2015 resulting in a decrease in fund balance to $142,014.

Budget Highlights:

The State's Annual Appropriations Act, its legally adopted budget, does not present budgets by GAAP fund. Instead, it presents program-level budgets for the following two funds:

General Funds – These funds are general operating funds. The resources in the funds are primarily taxes. The State expends General Funds to provide traditional State government services.

Total Funds – The Total Funds column in the Appropriations Act includes all budgeted resources. Amounts in this column include General Funds as well as most, but not all, federal and department-generated resources. Total Funds include portions of certain proprietary and capital project fund activities as well as most special revenue activities, but exclude the pension trust funds and some other fiduciary fund activities.

Amounts obtained by subtracting the General Funds column in the Appropriations Act from the Total Funds column in the Appropriations Act are referred as to *Other Budgeted Funds*.

The Office's budget for E16 General Funds was originally $1,814,102 for the fiscal year ended June 30, 2015. This compares to a final budgeted amount of $3,280,862. The primary increase was due to budgeted teacher student loan payments of $1,225,020. Actual expenditures, on the budgetary basis, totaled $2,720,967. These actual expenditures were $559,895 less than the final budgeted amount.

The Office's budget for E16 Other Budgetary Funds was originally $6,156,645 for the fiscal year ended June 30, 2015. This compares to a final budgeted amount of $11,314,673. The increase in the final budgeted amount is due primarily to additional appropriations for student loan payments to the South Carolina Student Loan Corporation in the budgeted amount of $5,089,881. Actual expenditures, on the budgetary basis, totaled $11,314,673. These actual expenditures were in line with the final budgeted amount.

Budget Highlights (Continued):

The Office's budget for X22 General Funds was originally $204,854,145 for the fiscal year ended June 30, 2015. This compares to a final budgeted amount of $231,387,898. The primary reason for the increase from the original to final budgeted amount is an additional $2,312,682 and $14,952,677 that was added to fund State agencies and fire departments, respectively, additional budgeted distributions to local governments in the amount of $22,712,641, and a reduction of $13,496,453 in budgeted distributions to fire departments. Actual expenditures, on the budgetary basis, totaled $231,362,575. These actual expenditures were $25,323 less than the final budgeted amount. The Office's Aid to Subdivisions Fund only receives General Fund appropriations. Therefore, amounts are not budgeted for X22 Other Budgetary Funds.

Current Conditions that are Expected to have a Significant Effect on the Office's Financial Position:

The Office implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* ("GASB No. 68") and GASB Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68* ("GASB No. 71") during the fiscal year ended June 30, 2015. This required that the Office recognize a portion of the State's net pension liability, deferred outflows of resources, and deferred inflows of resources. The estimated portion of the net pension liability applicable to the Office is approximately $6,381,000 for the fiscal year ended June 30, 2015. The implementation of GASB No. 68 and GASB No. 71 will not affect the required retirement contributions made by the Office.

This MD&A is designed to provide a general overview of the Office's finances for all of the State's citizens, taxpayers, customers, investors and creditors. This financial report seeks to demonstrate the Office's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

South Carolina Office of the State Treasurer
P.O. Box 11778
Columbia, South Carolina 29211

South Carolina Office of the State Treasurer
Statement of Net Position
June 30, 2015

Assets	
Current Assets:	
Cash and Cash Equivalents	$ 1,279,280
Prepaids	123,491
Total Current Assets	1,402,771
Total Assets	1,402,771
Deferred Outflows of Resources	
Contributions to Retirement Plan after Measurement Date	395,470
Difference Between Expected and Actual Retirement Plan Experience	180,797
Total Deferred Outflows of Resources	576,267
Liabilities	
Current Liabilities:	
Accounts Payable	673,656
Due to State General Fund	585,218
Compensated Absences	37,260
Total Current Liabilities	1,296,134
Noncurrent Liabilities:	
Net Pension Liability	6,380,503
Compensated Absences	363,731
Total Noncurrent Liabilities	6,744,234
Total Liabilities	8,040,368
Deferred Inflows of Resources	
Difference Between Projected and Actual Investment Earnings – Retirement Plan	537,923
Total Deferred Inflows of Resources	537,923
Net Position	
Unrestricted	(6,599,253)
Total Net Position	$ (6,599,253)

The notes to the financial statements are an integral part of these financial statements.

South Carolina Office of the State Treasurer
Statement of Activities
For the Year Ended June 30, 2015

Expenses		
Personnel Services	$	4,961,550
Travel		31,687
Supplies and Materials		145,090
Contracted Services		2,332,680
Student Loans – Teachers		1,065,125
Student Loans – Student Loan Corporation		5,089,881
Rent		329,065
Aid to Subdivisions		231,362,575
Total Expenses		245,317,653
General Revenues		
State Appropriations		239,758,641
Service Charges		5,099
Fines and Penalties		109,979
Investment Management Fees		2,700,000
Revenue from Other State Agencies		2,999,360
Other Income		165,000
		245,738,079
Transfers		
Remission to State General Fund		(585,218)
Total General Revenues and Transfers		245,152,861
Change in Net Position		(164,792)
Net Position, July 1, 2014, as Originally Reported		(143,865)
Implementation Effect of GASB Nos. 68 and 71		(6,290,596)
Net Position, July 1, 2014, as Restated		(6,434,461)
Net Position, June 30, 2015	$	(6,599,253)

The notes to the financial statements are an integral part of these financial statements.

South Carolina Office of the State Treasurer
Balance Sheet
Governmental Funds
June 30, 2015

	General Fund	Aid to Subdivisions Fund	State Treasurer's Office Earmarked Fund	Total Governmental Funds
Assets				
Cash and Cash Equivalents	$ 568,400	$ 25,323	$ 685,557	$ 1,279,280
Prepaids	1,883	—	121,608	123,491
Total Assets	$ 570,283	$ 25,323	$ 807,165	$ 1,402,771
Liabilities				
Accounts Payable	$ 8,505	$ —	$ 665,151	$ 673,656
Due to State General Fund	559,895	25,323	—	585,218
Total Liabilities	568,400	25,323	665,151	1,258,874
Fund Balances				
Nonspendable – Prepaids	1,883	—	121,608	123,491
Restricted:				
State Provisos	—	—	20,406	20,406
Total Fund Balances	1,883	—	142,014	143,897
Total Liabilities and Fund Balances	$ 570,283	$ 25,323	$ 807,165	$ 1,402,771

The notes to the financial statements are an integral part of these financial statements.

South Carolina Office of the State Treasurer
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2015

Total fund balance, governmental funds	$ 143,897
Amounts reported for governmental activities in the Statement of Net Position are different because:	
The net pension liability and related deferred outflows and inflows of resources are not due and payable in the current year and are not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Position.	
Net pension liability	(6,380,503)
Deferred outflows of resources for contributions after the retirement plan's measurement date	395,470
Deferred outflows of resources for differences between expected and actual retirement plan experience	180,797
Deferred inflows of resources for differences between projected and actual investment experience	(537,923)
Compensated absences are not due and payable in the current period and are not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Position	(400,991)
Net position of governmental activities in the Statement of Net Position	$(6,599,253)

The notes to the financial statements are an integral part of these financial statements.

South Carolina Office of the State Treasurer
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2015

	General Fund	Aid to Subdivisions Fund	State Treasurer's Office Earmarked Fund	Total Governmental Funds
Revenues				
State Appropriations	$ 3,280,862	$231,387,898	$ 5,089,881	$ 239,758,641
Service Charges	—	—	5,099	5,099
Fines and Penalties	—	—	109,979	109,979
Investment Management Fees	—	—	2,700,000	2,700,000
Revenue from Other State Agencies	—	—	2,999,360	2,999,360
Other Income	—	—	165,000	165,000
Total Revenues	3,280,862	231,387,898	11,069,319	245,738,079
Expenditures				
Personnel Services	1,546,263	—	3,375,406	4,921,669
Travel	4,925	—	26,762	31,687
Supplies and Materials	24,290	—	120,800	145,090
Contracted Services	29,469	—	2,303,211	2,332,680
Student Loans - Teachers	1,065,125	—	—	1,065,125
Student Loans – Student Loan Corporation	—	—	5,089,881	5,089,881
Rent	50,470	—	278,595	329,065
Aid to Subdivisions	—	231,362,575	—	231,362,575
Total Expenditures	2,720,542	231,362,575	11,194,655	245,277,772
Revenues Over (Under) Expenditures	560,320	25,323	(125,336)	460,307
Other Financing Uses				
Remission to State General Fund	(559,895)	(25,323)	—	(585,218)
Net Change In Fund Balance	425	—	(125,336)	(124,911)
Fund Balance, July 1, 2014	1,458	—	267,350	268,808
Fund Balance, June 30, 2015	$ 1,883	$ —	$ 142,014	$ 143,897

The notes to the financial statements are an integral part of these financial statements.

South Carolina Office of the State Treasurer
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2015

Total change in fund balance, governmental funds	$ (124,911)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Current year retirement plan contributions are considered a deferred outflow of resources rather than a current year expense in the Statement of Activities	395,470
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds	
Increase in pension expense due to changes in deferred outflows and inflows of resources	(525,591)
Amortization of deferred outflows of resources related to the net pension liability	(55,922)
Amortization of deferred inflows of resources related to the net pension liability	134,480
Compensated absences	11,682
Decrease in net position, governmental activities	$ (164,792)

The notes to the financial statements are an integral part of these financial statements.

South Carolina Office of the State Treasurer
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2015

	Private Purpose Trust	Agency
Assets		
Current Assets:		
Cash and Cash Equivalents	$ 3,332,994	$ 988,492,354
Amounts Due from Other State Agencies	7,218,895	87,007,763
Total Current Assets	10,551,889	1,075,500,117
Noncurrent Assets:		
Capital Assets:		
Land and Land Improvements	3,874,100	—
Buildings and Improvements	1,643,925	—
Equipment	405,871	—
Vehicles	113,222	—
Accumulated Depreciation	(1,379,415)	—
Total Noncurrent Assets	4,657,703	—
Total Assets	$ 15,209,592	$ 1,075,500,117
Liabilities		
Current Liabilities:		
Due to Depositors	$ —	$ 717,473,738
Accounts Payable	7,850,435	—
Amounts Due to Local Governments	—	255,280,096
Unclaimed Property Refunds	—	102,746,283
Total Current Liabilities	7,850,435	1,075,500,117
Total Liabilities	7,850,435	$ 1,075,500,117
Net Position		
Net Investment in Capital Assets	4,657,703	
Held in Trust for:		
Nuclear Plant Decommissioning	584,148	
Aid to Subdivisions	624,826	
Springdale Fund	1,050,653	
Other Purposes	441,827	
Total Net Position	7,359,157	
Total Liabilities and Net Position	$ 14,158,939	

The notes to the financial statements are an integral part of these financial statements.

South Carolina Office of the State Treasurer
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2015

	Private Purpose Trust
Additions:	
Service Fees	$ 42,843
Sales and Use Taxes	1,831,688
Interest and Investment Income	160,179
Total Additions	2,034,710
Deductions:	
State Allocations	1,838,336
Depreciation	82,868
Contracted Services	2,634,031
Disbursement to Devisee	11,883
Other Expenses	9,307
Total Deductions	4,576,425
Change in Net Position	(2,541,715)
Net Position, July 1, 2014	9,900,872
Net Position, June 30, 2015	$ 7,359,157

The notes to the financial statements are an integral part of these financial statements.

1. Summary of Significant Accounting Policies

The financial statements of the South Carolina Office of the State Treasurer (the "Office") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Office's accounting policies are described below.

A. Reporting Entity

The Office is established under the authority of the Constitution of South Carolina (the "Constitution") as an agency of the State of South Carolina (the "State"). The Office performs duties as designated by the Constitution or prescribed by law. The Office is a part of the primary government of the State.

The State Treasurer is elected every four years and is inaugurated the second Monday in January following the election for the position in November. In January 2011, the Honorable Curtis M. Loftis, Jr. became the State Treasurer.

The primary functions of the Office are acting as Custodian for both State funds and Retirement System funds, maintaining bank accounts for the receipt and disbursement of State funds, prudent investing of certain State funds, and administering the State's Unclaimed Property Program. Additionally, the Office performs safekeeping and investment functions for State agencies and other entities as authorized by State statute. Various activities of the Office include receipt of documents, management of cash and investments, management of debt service for various State entities, and the reconciliation of account balances and transactions with the various State agencies. The Office is also responsible for accounting functions associated with the South Carolina Tuition Prepayment Program, South Carolina Future Scholar 529 College Savings Plan, South Carolina Resources Authority, South Carolina Tobacco Settlement Revenue Management Authority, and South Carolina Local Government Investment Pool.

The accompanying financial statements are intended to present the financial position and results of operations of only that portion of the State that is attributable to transactions of the Office, and exclude the South Carolina Tuition Prepayment Program, South Carolina Future Scholar 529 College Savings Plan, South Carolina Resources Authority, South Carolina Tobacco Settlement Revenue Management Authority, and South Carolina Local Government Investment Pool (the Related Entities), and all debt service transactions related to obligations of the State, its agencies, departments, and political subdivisions. The financial statements of the Related Entities were audited by other auditors as of and for the fiscal year ended June 30, 2015.

1. Summary of Significant Accounting Policies (Continued)

B. South Carolina Tuition Prepayment Program

The South Carolina Tuition Prepayment Program (the "Program") was created by the General Assembly and allows families to pay in advance for the tuition expenses of a child's college education at any of the State's public colleges and universities with potentially significant savings over actual tuition costs at the time the child enrolls in college. The assets and related transactions of the Program are accounted for the South Carolina Tuition Prepayment Trust Fund (the "Fund"), for which the Office serves as the fiduciary agent.

The Program has been closed to new enrollment since July 1, 2008. The Office provides the State legislature with a written report of the unfunded liability of the Program each year as well as the projected date that the assets will be fully depleted. The Office determined that the Fund should not be reported in its financial statements because administration of the Program was outsourced on October 1, 2012. The State's Comprehensive Annual Financial Report included the Fund as a non-major enterprise fund as of and for the year ended fiscal June 30, 2015, and reported a net deficit for the Fund of approximately $55,900,000 as of the fiscal year then ended. The financial statements of the Fund were separately audited as of and for the fiscal year ended June 30, 2015. According to the actuarial valuation for the Program as of the fiscal year ended June 30, 2015, the net deficit in the Fund is an indicator that existing assets combined with future cash flows are insufficient to pay all contract owners their benefits. The Program's actuary projects that assets will be depleted in fiscal year 2019.

C. Basis of Presentation, Measurement Focus and Basis of Accounting

Government-wide Financial Statements

The government-wide financial statements are presented under GAAP using the accrual basis of accounting and pronouncements issued by the GASB.

All of the functions available to finance the Office are presented together as general government activities. Financial information for funds that are not available to finance these activities are not included; consequently, the government-wide financial statements exclude fiduciary assets and liabilities.

Additionally, the Office receives reimbursement from the unclaimed property funds for certain costs incurred in connection with the recovery, advertisement, and sale of unclaimed property. The Office holds unclaimed property refunds, or escheated property, in an agency capacity. A liability is recorded for amounts expected to be reclaimed and paid to claimants. This liability is satisfied by the State's General Fund. For the fiscal year ended June 30, 2015, the Office received $1,300,000 of unclaimed property receipts to offset certain capital and administrative costs incurred in connection with the administration of the State's Unclaimed Property Program. The Unclaimed Property Program is accounted for as an agency fund.

1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation, Measurement Focus and Basis of Accounting (Continued)

Fund Financial Statements

The fund financial statements are used to report the Office's financial position and results of operations as well as to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The governmental fund financial statements are presented on the modified accrual basis and the fiduciary fund financial statements are presented on the accrual basis. These methods of accounting are described below.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned or for non-exchange transactions, when all eligibility requirements have been met, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. "Measureable" means that the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay obligations of the current period. For this purpose, the Office considers major sources of revenue to be available if they are collected within sixty days of the end of the current fiscal year.

Financial resources of fiduciary funds are reported using the economic resources measurement focus and the accrual basis of accounting.

Governmental Fund Types

General Fund – The General Fund is the primary operating fund of the Office. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund.

Special Revenue Funds – These funds are used to account for revenues derived from specific taxes, state appropriations, and other revenue sources that are designated to finance particular functions or activities of the Office. Special Revenue Funds include:

- *Aid to Subdivisions Fund* – The Aid to Subdivisions Fund is a special revenue fund that accounts for appropriations set by the General Assembly from the State General Fund for aid to governmental subdivisions. Actual distributions are formula funded based on actual collections of the specific State General Fund revenue types.
- *State Treasurer's Office Earmarked Fund* – This special revenue fund accounts for revenues and transfers of appropriations earmarked for specific Office operations or restricted for student loan expenditures.

1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation, Measurement Focus and Basis of Accounting (Continued)

Governmental Fund Types (Continued)

Fiduciary Funds – Transactions related to assets held by the Office as an agent of other governmental agencies or private organizations are accounted for in the Fiduciary Funds. These are presented separately in the financial statements. The Office's Fiduciary Funds include:

- *Private Purpose Trust Funds* – These funds include a trust fund with assets set aside for site stabilization and closure of a nuclear waste site operated by a private company within the State's borders in the event that the company ceases operations or loses its license to operate as well as a trust fund with assets set aside for the operation of the equestrian center and activities at the Springdale Race Course (for the exclusive benefit of the Carolina Cup Racing Association, Inc., a private nonprofit corporation). The Private-Purpose Trust Funds also include miscellaneous other trust agreements holding assets that benefit non-State parties.

- *Agency Funds* – These funds are used to account for assets held by the Office in an agency capacity. The Office is the official depository for agencies of the State and, accordingly, administers the significant majority of State agency receipts and disbursements.

The fund financial statements focus on major funds. Each major fund is presented in a separate column. Major funds include (a) the Office's primary operating fund, (b) any fund for which total cash, receipts, or disbursements of an individual fund are at least 10% of the corresponding element total for all funds of that type, and (c) any other fund that Office officials believe is particularly important to financial statement users. The Office reports the following major governmental funds which are discretely presented in the governmental fund financial statements:

- General Fund
- Aid to Subdivisions Fund
- State Treasurer's Office Earmarked Fund

Cash and Cash Equivalents

The amounts shown in the accompanying financial statements as *cash and cash equivalents* represent cash on deposit in banks, restricted cash and cash equivalents with maturities of less than three months on the date of purchase, on deposit with external parties, and cash invested in various instruments as a part of the State's cash management pool, an internal investment pool. Since the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The Office administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of domestic corporations, certificates of deposit, and collateralized repurchase agreements.

1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation, Measurement Focus and Basis of Accounting (Continued)

Cash Management Pool – Allocation of Interest

The State cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account. All earnings on that account are recorded in the State General Fund. In contrast, each special deposit account retains its own earnings.

Prepaids

Expenditures for services paid for in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods. Amounts reported in this asset account consist primarily of maintenance and service agreements.

Capital Assets

The Office reports its capital assets in the applicable governmental or fiduciary type activities in the government-wide financial statements or Statement of Fiduciary Net Position. General capital assets for use by the Office are included in the government-wide financial statements while capital assets managed in trust for the benefit of others are reported in the Statement of Fiduciary Net Position. The Office reports the following categories of capital assets: land and land improvements, buildings and improvements, equipment and vehicles.

Capital assets are valued at historical cost or at estimated historical cost if actual historical cost data is not available. Donated capital assets are recorded at estimated fair market value on the donation date. The costs of normal maintenance and repairs that do not significantly add to the value of an asset or materially extend an asset's useful life are not capitalized.

An individual asset is capitalized and reported if it has an estimated useful life of at least two years and a historical cost of more than $5,000 for buildings and improvements, equipment, and vehicles. All land and non-depreciable land improvements with a cost of more than $100,000 are capitalized and reported. Once the Office places a depreciable capital asset in service, depreciation is recorded using the straight-line method over the following useful lives:

Asset Category	Years
Buildings and Improvements	5-55
Equipment	2-25
Vehicles	3-20

1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation, Measurement Focus and Basis of Accounting (Continued)

Compensated Absences

Generally, all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the Office's working days of the month are entitled to accrue and carry forward at calendar year-end maximums of 180 days of sick leave and 45 days of annual vacation leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave.

The compensated absences liability includes accrued annual leave earned for which the employees are entitled to paid time off or payment at termination. The entire unpaid liability for which the Office expects to compensate employees through paid time off or cash payments, inventoried at fiscal year-end, current salary costs, and the cost of the salary-related benefit payments, is recorded as a liability. The General Fund is used to liquidate the liability for compensated absences.

Due to Depositors

Due to Depositors reported in the Statement of Fiduciary Net Position – Fiduciary Funds represents amounts held by the Office in its Agency Funds for the benefit of other State agencies, local governments, and State boards. The Office collects various taxes, fines, and fees on behalf of these entities until the funds are needed for use or are distributed under applicable State provisos. The balance of this liability was $717,473,738 as of June 30, 2015.

Unclaimed Property Refunds

The Office holds unclaimed property refunds, or escheated property, in an agency capacity and is reported in the Agency Funds. Each year, the Unclaimed Property Program receives millions of dollars from companies that cannot locate the owners of the funds. The Unclaimed Property Program does not include tangible property like land or vehicles. A liability is recorded for amounts expected to be reclaimed and paid to claimants. See Note 14 for more information on unclaimed property refunds and the respective Unclaimed Property Program.

Net Position and Fund Balance

Net position is the residual measure of governmental activities while fund balance is the residual measure of governmental funds. A description of the various classifications of net position and fund balance are as follows:

Net Position

Net investment in capital assets

The net investment in capital assets portion of net position consists of capital assets, net of accumulated depreciation.

1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation, Measurement Focus and Basis of Accounting (Continued)

Net Position and Fund Balance (Continued)

Restricted net position

Restricted net position consist of assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or laws through constitutional provisions or enabling legislation. In all cases, if individual restricted net position categories are negative, the negative balance is eliminated and reclassified against unrestricted net position. As of June 30, 2015, the Office did not have any restricted net position.

Net position held in trust

Net position held in trust consists of assets that are held by the Office in a fiduciary capacity for the decommissioning of a nuclear plant, aid to subdivisions, the Springdale Fund which benefits the Springdale Race Course, or other specific purposes as defined by the trust.

Unrestricted net position

All other assets that do not meet the definition of "restricted" are considered "unrestricted". The Office's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Fund Balance

The Office has implemented the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The following categories of fund balance are now being used in the fund level financial statements of the governmental funds:

Non-spendable fund balance

The non-spendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example, inventories and prepaids. It also includes the long-term amount of loans and notes receivable, as well as other assets.

Restricted fund balance

The restricted fund balance classification includes amounts that are either restricted externally by creditors, grantors, contributors, or laws or regulations of other governments or restricted by law through constitutional provisions or enabling legislation. Most of the Office's fund balance is presented as restricted as all fund balance is restricted as to use for specific purposes under State provisos. These purposes are primarily to pay costs for the management of the Unclaimed Property Program and investment and debt management.

1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation, Measurement Focus and Basis of Accounting (Continued)

Net Position and Fund Balance (Continued)

Committed fund balance

The committed fund balance classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Office's highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the Office removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Committed fund balances also incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. As of June 30, 2015, the Office did not have any committed fund balance.

Assigned fund balance

The assigned fund balance classification includes amounts that are constrained by the Office's intent to be used for specific purposes but are not restricted or committed. The authority for making an assignment is not required to be the Office's highest level of decision-making authority and as such, the nature of the actions necessary to remove or modify an assignment does not require the Office's highest level of authority. As of June 30, 2015, the Office did not have any assigned fund balance.

Unassigned fund balance

The unassigned fund balance classification includes amounts that have not been assigned to other funds and have not been restricted, committed, or assigned for specific purposes within the General Fund.

Based on the Office's policies regarding fund balance classifications as noted above, it considers amounts that are restricted, committed, or assigned to be spent when the corresponding expenditure has been designated by the State or donor stipulations have been made. After these fund balances have been depleted, unassigned fund balances will be considered to have been spent. As of June 30, 2015, the Office did not have any unassigned fund balance.

Deferred Outflows and Inflows of Resources

A deferred outflow or inflow of resources is a consumption or acquisition of net position that is applicable to a future reporting period. The Office has recorded deferred outflows and inflows of resources in connection with the retirement plan contributions made subsequent to the measurement date, the difference between projected and actual investment earnings on retirement plan assets, and the difference between actual and expected retirement plan experience.

1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation, Measurement Focus and Basis of Accounting (Continued)

Revenue from Other State Agencies

Revenue from Other State Agencies in the State Treasurer's Office Earmarked Fund generally consists of revenue earned for administering State programs such as the Unclaimed Property Program and the South Carolina Future Scholar 529 College Savings Plan as well as fees for administering the State and State agency long term debt.

Contracted Services

Contracted services expenditures in the General Fund generally consist of payments for professional and data processing services.

Contracted services expenditures in the State Treasurer's Office Earmarked Fund generally consist of payments for asset and debt management consulting fees, custodial fees, and other investment consulting services.

Contracted services expenses in the Private Purpose Trust Funds generally consist of payments for the administration and decommissioning of a nuclear plant.

Student Loans – Teachers

Student Loans – Teachers expenditures in the General Fund are payments to the South Carolina Student Loan Corporation for its loan disbursements under its Career Changers Loan Program. These payments are funded through State Appropriations.

Student Loans – Student Loan Corporation

Student Loans – Student Loan Corporation expenditures in the State Treasurer's Office Earmarked Fund are payments to the South Carolina Student Loan Corporation for its loan disbursements under its South Carolina Teachers Loan Program. These payments are funded through State Appropriations.

State Allocations

State Allocations expenses in the Private Purpose Trust Funds generally consist of payments to municipalities for their allocated share of State collected fees, such as the solid waste fee.

Disbursements to Devisee

Disbursements to Devisee in the Private Purpose Trust Funds represent payments to the Carolina Cup Racing Association, Inc. The Office distributes the investment and interest income on the Springdale Fund, one of the Private Purpose Trust Funds, which is held for the benefit of the Springdale Race Course in Camden, South Carolina. The corpus of the fund is $1,050,653 as of the fiscal year ended June 30, 2015.

1. Summary of Significant Accounting Policies (Continued)

D. Implementation of New Accounting Standards

The Office implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* ("GASB No. 68") and GASB Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68,* during the fiscal year ended June 30, 2015.

The primary objective of GASB No. 68 is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. GASB No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, it identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

The objective of GASB No. 71 is to address an issue regarding application of the transition provisions of GASB No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. GASB No. 71 requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of GASB No. 71 are required to be applied simultaneously with the provisions of GASB No. 68.

2. Budget Policy

The Office is granted an annual appropriation for operating purposes by the General Assembly. The appropriation as enacted becomes the legal operating budget for the Office. The Appropriation Act authorizes expenditures from funds appropriated from the State General Fund and authorizes expenditures of total funds. The "Total Funds" column in the Appropriation Act for each individual budgetary unit authorizes expenditures from all budgeted resources. A revenue budget is not adopted for individual budgetary funds. Budgetary control is maintained at the line-item level of the budgetary entity. Agencies may process disbursement documents in the State's budgetary accounting system only if enough cash and appropriation authorization exist.

Transfers of funds may be approved by the State Budget and Control Board (the "SBCB") under its authority or by the agency as set forth in Appropriation Act Proviso 117.9 as follows: Agencies and institutions shall be authorized to transfer appropriations within programs and within the agency with notification to the Division of Budget and Analyses and the Comptroller General. No such transfer may exceed twenty percent of the program budget. Upon request, details of such personnel transfers may be provided to members of the General Assembly on an agency by agency basis. Transfers of appropriations from personnel service accounts to other operating accounts or from other operating accounts to personnel service accounts may be restricted to any established standard levels set by the SBCB upon formal approval by a majority of the members of the SBCB.

2. Budget Policy (Continued)

During the fiscal year-end closeout period in July, agencies may continue to charge vendor, interagency, and interfund payments for the fiscal year to that fiscal year's appropriations. Any unexpended State General Fund monies as of June 30 automatically lapse to the State General Fund on July 1 unless authorization is received from the General Assembly to carry over the funds to the ensuing fiscal year.

3. Deposits

By law, all deposits are under the control of the Office except for those that, by specific authority, are under the control of other agencies or component units. The deposit and investment policies of those entities may differ from those of the Office. Typically, these agencies follow the deposit and investment policies of the Office in an effort to minimize deposit and investment risks.

Deposits include cash and cash equivalents on deposit in banks and non-negotiable certificates of deposit. The State's policy by law requires all banks or savings and loan associations that receive State funds deposited by the Office, to secure the deposits by deposit insurance, surety bonds, collateral securities, or letters of credit to protect the State against any loss. All deposit and investment transactions of the Office are under the control of the Office who, by law, has sole authority for the investment of such funds.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a depository financial institution's failure, the Office will not be able to recover collateral securities that are in the possession of an outside party. Deposits include cash and cash equivalents on deposit in banks and non-negotiable certificates of deposit. All deposits under the control of the Office are fully insured or collateralized.

4. Investment Management Fees

Under Proviso 97.5, the Office 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. The total amount the Office received in investment management fees for the fiscal year ended June 30, 2015 was $2,700,000.

5. Amounts Due from Other State Agencies

At June 30, 2015, the Private Purpose Trust Funds and Agency Funds held receivables due from other State agencies. The following is a summary of the amounts due from other State agencies:

	Private Purpose Trust	Agency
Selective Sales and Use Taxes	$ 7,213,195	$ 15,454,318
General Sales and Use Taxes	—	68,882,430
Miscellaneous Revenue	5,700	2,671,015
Total Amounts Due from Other State Agencies	$ 7,218,895	$ 87,007,763

6. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2015, for the Private Purpose Trust Funds was as follows:

	Beginning Balance June 30, 2014	Increases	Decreases	Ending Balance June 30, 2015
Private purpose trust funds				
Capital assets not being depreciated:				
Land and land improvements	$ 3,874,100	$ —	$ —	$ 3,874,100
Total capital assets not being depreciated	3,874,100	—	—	3,874,100
Capital assets being depreciated:				
Buildings and improvements	1,643,925	—	—	1,643,925
Equipment	412,569	—	(6,698)	405,871
Vehicles	113,222	—	—	113,222
Total capital assets being depreciated	2,169,716	—	(6,698)	2,163,018
Less accumulated depreciation for:				
Buildings and improvements	(889,788)	(53,149)	—	(942,937)
Equipment	(301,300)	(28,654)	6,698	(323,256)
Vehicles	(112,157)	(1,065)	—	(113,222)
Total accumulated depreciation	(1,303,245)	(82,868)	6,698	(1,379,415)
Total capital assets being depreciated, net	866,471	(82,868)	—	783,603
Total capital assets for private purpose trust funds, net	$ 4,740,571	$ (82,868)	$ —	$ 4,657,703

7. Amounts Due to Local Governments

At June 30, 2015, the Agency Funds held amounts due to local governments on a variety of items. The following is a summary of the amounts due to local governments:

	Agency
Local Option Sales and Accommodation Taxes	$ 204,733,349
Local Option Sales Tax Development Fee	6,434,504
Additional Accommodation Tax	22,719,410
Tobacco Products Playing Card Tax	14,664,683
Miscellaneous Amounts	6,728,150
Total Amounts Due to Local Governments	$ 255,280,096

8. Long-term Liabilities

Long-term liabilities consist of compensated absences. Compensated absence activity for the fiscal year ended June 30, 2015 for the primary government was as follows:

Beginning Balance June 30, 2014	Increases	Decreases	Ending Balance June 30, 2015	Current Portion
$ 412,673	$ 322,443	$ (334,125)	$ 400,991	$ 37,26 0

9. Pension Plan

The South Carolina Public Employee Benefit Authority ("PEBA"), which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the South Carolina Retirement Systems (the "Systems") and the trust funds. By law, the SBCB, which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the Systems and serves as a co-trustee of the Systems in conducting that review.

PEBA issues a Comprehensive Annual Financial Report ("CAFR") containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The CAFR is publicly available through the Retirement Benefits' link on PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960. PEBA is considered a division of the primary government of the State and therefore, retirement trust fund financial information is also included in the State's CAFR.

Plan Descriptions

- The South Carolina Retirement System ("SCRS"), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for employees of the State, its public school districts, and political subdivisions.

9. Pension Plan (Continued)

Plan Descriptions (Continued)

- The State Optional Retirement Program ("State ORP") is a defined contribution plan that is offered as an alternative to certain newly hired State, public school, and higher education employees. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers.

Membership

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under each system is presented below.

- SCRS - Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. This plan covers general employees and teachers and individuals newly elected to the General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

- State ORP - As an alternative to membership in SCRS, newly hired State, public school, and higher education employees and individuals newly elected to the General Assembly beginning with the November 2012 general election have the option to participate in the State ORP, which is a defined contribution plan. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the investment providers. For this reason, State ORP programs are not considered part of the Systems for financial statement purposes. Employee and Employer contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employers to the member's account with investment providers for the employee contribution (8 percent) and a portion of the employer contribution (5 percent). A direct remittance is also required to SCRS for the remaining portion of the employer contribution (5.75 percent) and an incidental death benefit contribution (0.15 percent), if applicable, which is retained by SCRS.

Benefits

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the Code of Laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation. A brief summary of the benefit terms for each system is presented below.

- SCRS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years.

9. Pension Plan (Continued)

Benefits (Continued)

- Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

The retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase.

Contributions

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. The PEBA Board may increase the SCRS employer and employee contribution rates on the basis of the actuarial valuations, but any such increase may not result in a differential between the employee and employer contribution rate that exceeds 2.9 percent of earnable compensation for SCRS. An increase in the contribution rates adopted by the PEBA Board may not provide for an increase of more than one-half of one percent in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the PEBA Board are insufficient to maintain a thirty year amortization schedule of the unfunded liabilities of the plans, the PEBA Board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; and, this increase is not limited to one- half of one percent per year.

9. Pension Plan (Continued)

Contributions (Continued)

Required employee contribution rates for fiscal year 2014-2015 are as follows:

SCRS	
Employee Class Two	8.00% of earnable compensation
Employee Class Three	8.00% of earnable compensation
State ORP Employee	8.00% of earnable compensation

Required employer contribution rates for fiscal year 2014-2015 are as follows:

SCRS	
Employer Class Two	10.75% of earnable compensation
Employer Class Three	10.75% of earnable compensation
Employer Incidental Death Benefit	0.15% of earnable compensation
State ORP Employee	
Employer Contribution	10.75% of earnable compensation[1]
Employer Incidental Death Benefit	0.15% of earnable compensation

[1] Of this employer contribution of 10.75% of earnable compensation, 5% of earnable compensation must be remitted by the employer directly to the State ORP vendor to be allocated to the member's account with the remainder of the employer contribution remitted to SCRS.

Actuarial Assumptions and Methods

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined during the valuation process are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. State statute requires that an actuarial experience study be completed at least once in each five-year period. The last experience study was performed on data through June 30, 2010, and the next experience study is scheduled to be conducted after the June 30, 2015 annual valuation is complete.

The most recent annual actuarial valuation reports adopted by the PEBA Board and SBCB are as of July 1, 2013. The net pension liability of each defined benefit pension plan was therefore determined by the Systems' consulting actuary, Gabriel, Roeder, Smith and Company ("GRS"), based on the July 1, 2013 actuarial valuations, using membership data as of July 1, 2013, projected forward to the end of the fiscal year, and financial information of the pension trust funds as of June 30, 2014, using generally accepted actuarial procedures. Information included in the following schedules is based on the certification provided by GRS.

The following provides a summary of the actuarial assumptions and methods used in the July 1, 2013, valuations for SCRS.

9. Pension Plan (Continued)

Actuarial Assumptions and Methods (Continued)

	SCRS
Actuarial cost method	Entry age
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	levels off at 3.5%
Includes inflation at	2.75%
Benefit adjustments	lesser of 1% or $500

The post-retiree mortality assumption is dependent upon the member's job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000.

Former Job Class	Males	Females
Educators and Judges	RP-2000 Males (with White Collar adjustment) multiplied by 110%	RP-2000 Females (with White Collar adjustment) multiplied by 95%
General Employees and Members of the General Assembly	RP-2000 Males multiplied by 100%	RP-2000 Females multiplied by 90%
Public Safety, Firefighters and members of the South Carolina National Guard	RP-2000 Males (with Blue Collar adjustment) multiplied by 115%	RP-2000 Females (with Blue Collar adjustment) multiplied by 115%

Net Pension Liability

The net pension liability is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25*, less that system's fiduciary net position. As of June 30, 2015, the Office's proportional share of the net pension liability amounts for SCRS is presented below:

System	Proportional Share of Net Pension Liability
SCRS	$6,380,503

The total pension liability is calculated by the Systems' actuary, and each plan's fiduciary net position is reported in the Systems' financial statements. The Office's proportionate share of the net pension liability was calculated on the basis of historical employer contributions. Although GASB No. 68 encourages the use of the employer's projected long-term contribution effort to the retirement plan, allocating on the basis of historical employer contributions is considered acceptable. For the fiscal year ended June 30, 2015, the Office's percentage of the SCRS net pension liability was 0.03706%.

9. Pension Plan (Continued)

Net Pension Liability (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS will be made based on the actuarially determined rates based on provisions in the South Carolina Code of Laws. Based on those assumptions, each system's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments for actuarial purposes is based upon the 30 year capital market outlook at the end of the third quarter 2012. The actuarial long-term expected rates of return represent best estimates of arithmetic real rates of return for each major asset class and were developed in coordination with the investment consultant for the Retirement System Investment Commission ("RSIC") using a building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. The actuarial long-term assumptions for other asset classes are based on historical results, current market characteristics and professional judgment.

Long-term Expected Rate of Return (Continued)

The RSIC has exclusive authority to invest and manage the retirement trust funds' assets. As co-fiduciary of the Systems, statutory provisions and governance policies allow the RSIC to operate in a manner consistent with a long-term investment time horizon. The expected real rates of investment return, along with the expected inflation rate, form the basis for the target asset allocation adopted annually by the RSIC. For actuarial purposes, the long-term expected rate of return is calculated by weighting the expected future real rates of return by the target allocation percentage and then adding the actuarial expected inflation which is summarized in the table on the following page. For actuarial purposes, the 7.50 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

9. Pension Plan (Continued)

Net Pension Liability (Continued)

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Short Term	**5.0%**		
Cash	2.0	0.3%	0.01%
Short Duration	3.0	0.6	0.02
Domestic Fixed Income	**13.0**		
Core Fixed Income	7.0	1.1	0.08
High Yield	2.0	3.5	0.07
Bank Loans	4.0	2.8	0.11
Global Fixed Income	**9.0**		
Global Fixed Income	3.0	0.8	0.02
Emerging Markets Debt	6.0	4.1	0.25
Global Public Equity	**31.0**	**7.8**	**2.42**
Global Tactical Asset Allocation	**10.0**	**5.1**	**0.51**
Alternatives	**32.0**		
Hedge Funds (Low Beta)	8.0	4.0	0.32
Private Debt	7.0	10.2	0.71
Private Equity	9.0	10.2	0.92
Real Estate (Broad Market)	5.0	5.9	0.29
Commodities	3.0	5.1	0.15
Total Expected Real Return	100.0%		5.88
Inflation for Actuarial Purposes			2.75
Total Expected Nominal Return			8.63%

Sensitivity Analysis

The following table presents the collective net pension liability of the participating employers calculated using the discount rate of 7.50 percent, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1.00 percent lower (6.50 percent) or 1.00 percent higher (8.50 percent) than the current rate.

Sensitivity of the Proportional Share of Net Pension Liability to Changes in the Discount Rate			
System	1.00% Decrease (6.50%)	Current Discount Rate (7.50%)	1.00% Increase (8.50%)
SCRS	$ 8,256,766	$ 6,380,503	$ 4,815,162

9. Pension Plan (Continued)

Deferred Outflows (Inflows) of Resources

For the fiscal year ended June 30, 2015, the Office recognized pension expense of $447,033 which is included in employer personnel expenses in the accompanying financial statements. At June 30, 2015, the Office reported deferred outflows (inflows) of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 395,470	$ —
Differences in actual and expected experience	180,797	—
Net differences between projected and actual earnings on plan investments	—	537,923
	$ 576,267	$ 537,923

The Office reported $395,470 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows (inflows) of resources will be recognized in pension expense in future years. The following schedule reflects the amortization of the Office's proportional share of the net balance of remaining deferred outflows (inflows) of resources at June 30, 2015. Average remaining services lives of all employees provided with pensions through the pension plans at June 30, 2015 was 4.233 years for SCRS.

Measurement Period Ending June 30,	**Fiscal Year Ending June 30,**	**SCRS**
2015	2016	$ (78,558)
2016	2017	(78,558)
2017	2018	(78,558)
2018	2019	(121,452)
Net balance of deferred outflows (inflows) of resources		$ (357,126)

10. Post-Employment Benefits Other Than Pensions

Plan Description

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents. The Office contributes to the South Carolina Retiree Health Insurance Trust Fund ("SCRHITF") and the South Carolina Long-Term Disability Insurance Trust Fund ("SCLTDITF"), cost-sharing multiple employer defined benefit postemployment healthcare and long-term disability plans administered by the Insurance Benefits Division of PEBA.

Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires beginning employment May 2, 2008 and after, retirees are eligible for benefits if they have established 25 years of service for 100% employer funding and 15 through 24 years of service for 50% employer funding.

Benefits become effective when the former employee retires under a State retirement system. Basic Long-Term Disability (BLTD) benefits are provided to active State, public school district, and participating local government employees approved for disability.

Funding Policies

Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the Insurance Benefits Division and participating retirees to PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the Insurance Benefits Division, for its active employees who are not funded by State General Fund appropriations. Employers are mandated by State statute to contribute at a rate assessed each year by the SBCB, 5.00% of annual covered payroll for 2015 and 4.92% of annual covered payroll for 2014. The Insurance Benefits Division sets the employer contribution rate based on a pay-as-you-go basis. The Office paid $374,223 and $339,040 to the trust fund for the fiscal years ended June 30, 2015 and 2014, respectively. BLTD benefits are funded through a person's premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to the Insurance Benefits Division was $3.22 for the fiscal years ended June 30, 2015 and 2014.

Effective May 1, 2008, the State established two trust funds through Act 195 for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and long-term disability insurance benefits. The SCRHITF is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated insurance benefit reserves, and income generated from investments. The SCLTDITF is primarily funded through investment income and employer contributions.

A copy of the separately issued financial statements for the benefit plans and the trust funds may be obtained by writing to the South Carolina Public Employee Benefit Authority – Insurance Benefits Division, P.O. Box 11960, Columbia, South Carolina 29211-1960.

10. Post-Employment Benefits Other Than Pensions (Continued)

Other Employee Benefits

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State provides certain health care, dental, and life insurance benefits to all permanent full-time and certain permanent part-time employees of the Office. These benefits are provided on a reimbursement basis by the employer agency based on rates established at the beginning of the service period by the Insurance Benefits Division of PEBA.

11. Deferred Compensation Plans

Several optional deferred compensation plans are available to State employees. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are administered by third parties and are not included in the Office's financial statements. Compensation deferred under the plans is placed in trust for the contributing employee. The Office has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan. The Office made no contributions for the fiscal year ended June 30, 2015.

12. Risk Management

The Office is exposed to various risks of loss including theft of, damage to, or destruction of assets, general torts and maintains State insurance coverage for non-owned motor vehicles and general torts. The Office did not incur any losses during the year.

The Office and other entities pay premiums to the State's Insurance Reserve Fund ("IRF") which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following assets, activities and / or events:

1. Motor vehicles (non-owned);
2. Torts;
3. Building and content;
4. Inland marine; and
5. Data processing.

The IRF is self-insured and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of certain property and equipment and auto liability. Reinsurance permits partial recovery of losses from reinsurers, but the IRF remains primarily liable. The IRF's rates are determined actuarially. The Office paid $17,228 to the IRF for insurance premiums during the fiscal year ended June 30, 2015.

The Office has not transferred the risk of loss for employee theft or misappropriation of assets and the portion of the risks of loss related to insurance policy deductibles for non-owned motor vehicles and torts to a State or commercial insurer.

13. Transactions with State Entities / Related Parties

The Office had significant transactions with the State and various State agencies. The Office purchases goods and services from various State agencies. Total purchases from State agencies were $1,095,427 for the fiscal year ended June 30, 2015. Payments totaling $3,239 for the fiscal year ended June 30, 2015 were also made to another agency for unemployment insurance.

The Office is statutorily mandated to provide services or perform duties related to court fines, Local Government Investment Pool, decommissioning trusts, debt, investments, unclaimed property and college savings plans. Total revenues earned by the Office for those services were $5,979,438 for the fiscal year ended June 30, 2015.

The Office provided no material services free of charge to other State agencies during the fiscal year. The Office participates in the statewide dual employment program. Workers' compensation insurance premiums of $15,542 were paid to the State Accident Fund during fiscal year 2015.

14. Unclaimed Property Program

The Unclaimed Property Program ("UPP") is administered by the Office. The property transferred to the UPP for safekeeping is held indefinitely for the benefit of the rightful owners. Until claimed, the funds are used for the good of all South Carolina citizens.

The Office receives an actuarial valuation for the liability it has to refund the unclaimed property it has received. The liability for the unclaimed property refund is based on historical and expected payout frequencies and other relative factors. For the fiscal year ended June 30, 2015, the estimated liability was $102,746,283 which approximated the amount of cash and cash equivalents held by the UPP at June 30, 2015.

15. Implementation of New Accounting Standards and Restatement of Net Position

The Office implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* ("GASB No. 68") and GASB Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68,* during the fiscal year ended June 30, 2015.

The primary objective of GASB No. 68 is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. GASB No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, it identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

15. Implementation of New Accounting Standards and Restatement of Net Position

The implementation of these two GASB standards resulted in the restatement of beginning net position as reported at July 1, 2014 as presented below:

Net position at July 1, 2014, as originally reported	$	(143,865)
Office's share of the net pension liability		(6,647,242)
Deferred outflow of resources for pension contributions made after the measurement date		356,646
Net position at July 1, 2014, as restated	$	(6,434,461)

16. Subsequent Events

In preparing these financial statements, management has evaluated events and transactions for potential recognition and disclosure through November 30, 2016, the date these financial statements were available to be issued.

The South Carolina Restructuring Act of 2014 (Act 121) eliminated the State Budget and Control Board on June 30, 2015. Act 121 created the State Fiscal Accountability Authority. The State Fiscal Accountability Authority is governed by the Governor, State Treasurer, Comptroller General, Chairman of the Senate Finance Committee, and Chairman of the House Ways and Means Committee. Effective July 1, 2015, the State Budget and Control Board became the State Fiscal Accountability Authority.

South Carolina Office of the State Treasurer
Supplementary Information
Budgetary Comparison Schedule (Non-GAAP) Budgetary Basis
E16 - State Treasurer's Office Budgetary General Funds
For the Year Ended June 30, 2015

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Expenditures:				
Administration				
Personnel Services				
State Treasurer	$ 92,007	$ 92,007	$ 92,007	$ —
Classified Positions	64,825	54,088	54,088	—
Other Operating Expenditures	14,115	14,115	14,115	—
Total Administration	170,947	160,210	160,210	—
Programs and Services				
Personnel Services				
Classified Positions	978,052	949,397	949,397	—
Other Personnel Services	—	45,326	45,326	—
Other Operating Expenditures	52,641	95,464	95,464	—
Special Item – Identity Theft Reimbursement	200,000	400,000	—	400,000
Total Programs and Services	1,230,693	1,490,187	1,090,187	400,000
Employee Benefits – Employer Contributions	412,462	405,445	405,445	—
Special Items – Student Loans, Teachers	—	1,225,020	1,065,125	159,895
Total Expenditures	$ 1,814,102	$ 3,280,862	$ 2,720,967	$ 559,895

See accompanying independent auditor's report and notes to required supplementary information.

South Carolina Office of the State Treasurer
Supplementary Information
Budgetary Comparison Schedule (Non-GAAP) Budgetary Basis
E16 - State Treasurer's Office Budgetary Other Funds
For the Year Ended June 30, 2015

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Expenditures:				
Programs and Services				
Personnel Services				
Classified Positions	$ 2,348,218	$ 1,911,943	$ 1,911,943	$ —
Unclassified Positions	217,000	337,281	337,281	—
Other Personnel Services	75,000	289,057	289,057	—
Other Operating Expenditures	2,665,219	2,849,437	2,849,437	—
Total Programs and Services	5,305,437	5,387,718	5,387,718	—
Employee Benefits – Employer Contributions	851,208	837,074	837,074	—
Special Items – Student Loans, Student Loan Corporation	—	5,089,88 1	5,089,88 1	—
Total Expenditures	$ 6,156,645	$ 11,314,673	$ 11,314,673	$ —

See accompanying independent auditor's report and notes to required supplementary information.

South Carolina Office of the State Treasurer
Supplementary Information
Budgetary Comparison Schedule (Non-GAAP) Budgetary Basis
X22 - State Treasurer's Office Budgetary General Funds
For the Year Ended June 30, 2015

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Expenditures:				
Aid to Subdivisions				
Fire Districts	$ 13,496,453	$ —	$ —	$ —
Local Government Fund	187,619,411	210,332,052	210,306,729	25,323
Planning Districts	556,253	556,253	556,253	—
County Veterans' Offices	254,932	260,031	260,031	—
State Agencies	—	2,312,682	2,312,682	—
Fire Departments – Premium Tax	—	11,175,553	11,175,553	—
Fire Departments – Brokers Premium	—	3,777,124	3,777,124	—
Total Aid to Subdivisions	201,927,049	228,413,695	228,388,372	25,323
Aid to Subdivisions - Grants				
Clerks of Court	72,450	72,450	72,450	—
Probate Judges	72,450	72,450	72,450	—
Sheriffs	72,450	72,450	72,450	—
Register of Deeds	33,075	33,075	33,075	—
Coroners	72,450	72,450	72,450	—
Auditors	1,302,111	936,240	936,240	—
Treasurers	1,302,110	936,240	936,240	—
Employer Contributions	—	778,848	778,848	—
Total Aid to Subdivisions - Grants	2,927,096	2,974,203	2,974,203	—
Total Expenditures	$ 204,854,145	$ 231,387,898	$ 231,362,575	$ 25,323

See accompanying independent auditor's report and notes to required supplementary information.

South Carolina Office of the State Treasurer
Notes to Supplementary Information
Budgetary Comparison Schedules
For the Year Ended June 30, 2015

1. Budgetary Funds

The State's Annual Appropriations Act, its legally adopted budget, does not present budgets by GAAP fund. Instead, it presents program-level budgets for the following two funds:

General Funds – These funds are general operating funds. The resources in the funds are primarily taxes. The State expends General Funds to provide traditional State government services.

Total Funds – The Total Funds column in the Appropriations Act includes all budgeted resources. Amounts in this column include General Funds as well as most, but not all, federal and department-generated resources. Total Funds include portions of certain proprietary and capital project fund activities as well as most special revenue activities, but exclude the pension trust funds and some other fiduciary fund activities.

Amounts obtained by subtracting the General Funds column in the Appropriations Act from the Total Funds column in the Appropriations Act are referred to within these notes and in the accompanying schedules as *Other Budgetary Funds*.

As operating conditions change, the Office may transfer appropriations between programs and classifications within programs. However, limits are placed on increasing/decreasing authorizations for personnel services without SBCB approval. Also, a revision of budgeted amounts over and above the total revenues appropriated requires approval of the SBCB. Due to the Office's ability to transfer appropriations, the budgetary comparison schedule for the State Treasurer's Office Budgetary Other Funds shows no variance between final budgeted amounts and actual expenditures on the budgetary basis of accounting. The overall increase in appropriations for the E16 - State Treasurer's Office Budgetary General Funds, E16 - State Treasurer's Office Budgetary Other Funds, X22 - State Treasurer's Office Budgetary General Funds were approved by the SBCB.

2. Original and Final Budgeted Amounts; Basis of Presentation

The original appropriations presented in the accompanying schedules for the General Fund, Aid to Subdivisions Fund and State Treasurer's Office Earmarked Fund include amounts in the Appropriations Act as well as any appropriation reductions specifically authorized by law to prevent duplicate appropriations. The terminology, classification, and format of the appropriations section of the accompanying schedules are substantively the same as for the legally adopted budget.

The General Assembly does not approve estimated revenue or fund balance amounts for Budgeted Other Funds which include the Office's General Fund, State Treasurer's Office Earmarked Fund, and Aid to Subdivisions Fund. However, Section 115 (*Recapitulations*) of the Appropriations Act includes net source of funds amounts (i.e. estimated cash brought forward from the previous fiscal year plus estimated revenue for the current fiscal year minus estimated cash to be carried forward to the following fiscal year) for three categories of Budgeted Other Funds: Federal, Earmarked, and Restricted.

3. Legal Level of Budgetary Control

The Office maintains budgetary control at the level of summary objective category of expenditure within each program of each department or agency which is the level of detail presented in the accompanying schedules.

4. Basis of Budgeting

Current legislation states that the General Assembly intends to appropriate all monies to operate State government for the current fiscal year. Unexpended appropriations lapse on July 31 unless the department or agency is given specific authorization to carry them forward to the next fiscal year. Cash-basis accounting for payroll expenditures is used, while the accrual basis is used for other expenditures.

State law does not precisely define the State's budgetary basis of budgeting. In practice, however, it is the cash basis with the following exceptions:

- Departments and agencies shall charge certain vendor and interfund payments against the preceding fiscal year's appropriations through July 12.

- Revenues are recorded only when the State receives the related cash with the exception of certain tax amounts, such as motor fuel taxes and gas taxes, which are not received by the Office's General Fund, State Treasurer's Office Earmarked Fund, or Aid to Subdivisions Fund in the accompanying schedules.

5. Reconciliation of Budget to GAAP Reporting Differences

The accompanying budgetary comparison schedules compare the Office's legally adopted budget with actual information in accordance with the legal basis of budgeting. Budgetary accounting principles differ significantly from GAAP accounting principles. Basis differences arise because the basis of budgeting differs from the GAAP basis used to prepare the Statement of Revenues, Expenditures, and Changes in Fund Balances. In the current year, there are basis differences for the Office's General Fund and State Treasurer's Office Earmarked Fund, which consists primarily of amounts due from other State agencies, accounts payable, and prepaids.

Reconciliation of Budgetary Basis to GAAP Basis Expenditures
For the Year Ended June 30, 2015

	General Fund	State Treasurer's Office Earmarked Fund
Total expenditures, budgetary basis	$ 2,720,967	$ 11,314,673
Basis of accounting differences:		
Prepaids are considered current year expenditures under the budgetary basis	(425)	(118,735)
Other basis differences	—	(1,283)
Total expenditures, GAAP basis	$ 2,720,542	$ 11,194,655

South Carolina Office of the State Treasurer
Schedule of the South Carolina Office of the State Treasurer's
Proportionate Share of the Net Pension Liability -
South Carolina Retirement System
June 30, 2015

	2015	2014
The Office's proportion of the net pension liability	0.03706%	0.03706%
The Office's proportionate share of the net pension liability	$ 6,380,503	$ 6,647,242
The Office's covered employee payroll during the measurement period	$ 3,364,584	$ 3,321,241
The Office's proportionate share of the net pension liability as percentage of covered employee payroll	189.64%	200.14%
Plan fiduciary net position as a percentage of the total pension liability	59.90%	56.40%

Note: The amounts presented above were determined as of June 30th of the preceding year.

South Carolina Office of the State Treasurer
Schedule of the South Carolina Office of the State Treasurer's Contributions -
South Carolina Retirement System
For the Year Ended June 30, 2015

	2015	2014	2013	2012
Contractually required contribution	$ 395,470	$ 356,646	$ 352,051	$ 299,385
Contributions in relation to the contractually required contribution	395,470	356,646	352,051	299,385
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
The Office's covered-employee payroll	$ 3,628,165	$ 3,364,584	$ 3,321,241	$ 3,139,861
Contributions as a percentage of covered-employee payroll	10.90%	10.60%	10.60%	9.54%

This schedule is presented to illustrate the requirement to show information for ten (10) years. However, information for fiscal years 2006 through 2011 is not readily available.

elliott davis decosimo

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Honorable Curtis M. Loftis, Jr.
South Carolina Office of the State Treasurer

and

Mr. George L. Kennedy, III, CPA
State Auditor
South Carolina Office of the State Auditor
Columbia, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Carolina Office of the State Treasurer (the "Office"), as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements, and have issued our report thereon dated November 30, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Office's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control. Accordingly, we do not express an opinion on the effectiveness of the Office's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Office's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Office's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Office's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Elliott Davis Decosimo, LLC

Columbia, South Carolina
November 30, 2016

South Carolina Office of the State Treasurer
Schedule of Findings and Responses
For the Year Ended June 30, 2015

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:			Unmodified	
Internal control over financial reporting:				
• Material weakness(es) identified?	____	Yes	X	No
• Significant deficiency(ies) identified?	____	Yes	X	None reported
Noncompliance material to financial statements noted?	____	Yes	X	No
Section II. Financial Statement Findings	____	Yes	X	None reported

THE STATUS OF EQUAL EMPLOYMENT OPPORTUNITY IN SOUTH CAROLINA STATE GOVERNMENT

FEBRUARY 1, 2016

ANNUAL REPORT TO THE GENERAL ASSEMBLY

SOUTH CAROLINA STATE HUMAN AFFAIRS COMMISSION

State Treasurer's Office

Agency Director: Curtis M. Loftis, Jr.
EEO Officer: Alicia Sharpe

EEO CATEGORY (1)		ACTUAL WORKFORCE ON 09/30/2015 (2)							Adjusted Availability% (Qualified Labor Pool) (3)			UNDERUTILIZATION (4)			HIRES AND PROMOTIONS - 10/01/2014 - 09/30/2015 (5)							% OF Goals Met Based on Adjusted Availability (6)		
		WM	BM	OM	WF	BF	OF	TOTAL	BM	WF	BF	BM	WF	BF	WM	BM	OM	WF	BF	OF	TOTAL	BM	WF	BF
E1	#	7	1		3	1		12	3.8	30.1	6.0	NO	5.1*	NO	5	1		2	1		9	YES	83.1%*	YES
	%	58.3	8.3		25.0	8.3		100.0							55.6	11.1		22.2	11.1		100.0			
E2	#	10	1		11	11	1	34	4.3	40.0	10.5	1.4*	7.6	NO	7			5	2	1	15	67.4%*	81.0%	YES
	%	29.4	2.9		32.4	32.4	2.9	100.0							46.7			33.3	13.3	6.7	100.0			
E3	#	3	2			2		7	6.8	20.8	12.0	NO	20.8	NO								YES	0.0%	YES
	%	42.9	28.6			28.6		100.0																
E5	#	1			2	1		4	4.5	46.9	15.2	4.5*	NO	NO								0.0%*	YES	YES
	%	25.0			50.0	25.0		100.0																
E6	#		1		1			2	3.7	56.9	17.8	NO	6.9*	17.8*								YES	87.9%*	0.0%*
	%		50.0		50.0			100.0																
	#																							
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NOTE: See section entitled "Understanding the Report" for a detailed explanation of how the above information was computed.

LEGEND: WM = White Male   BM = Black Male   OM = Other Male   T = Total   % = Percentage
WF = White Female   BF = Black Female   OF = Other Female   # = Number

If an agency is not employing any race/sex group at a rate equal to the Adjusted Availability percentage, the underutilization is noted in Column # 4.

*No goal established because the underutilization is less than one whole person.

Level of Goal Attainment for 2013: 84.2 percent
Level of Goal Attainment for 2014: 88.2 percent
Level of Goal Attainment for 2015: 86.1 percent