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August 3, 2016

EMAIL and U.S. MAIL  
The Honorable Curtis M. Loftis, Jr.  
State Treasurer  
Post Office Box 11778  
Columbia, South Carolina 29211

Dear Treasurer Loftis:

On behalf of the entire Executive Subcommittee, I would like to thank your staff for sharing its time and knowledge with this subcommittee, during our last meeting. Our next meeting will include your staff providing a recap of the information presented to the subcommittee during previous meetings about the agency's strategic plan, resource allocation, and performance, as well as comments from constituents pursuant to the motion approved during our last meeting.

In preparation for our next meeting on Friday, August 19, 2016, please provide written responses to the questions enclosed with this letter on or before Tuesday, August 15, 2016. These questions primarily relate to the agency's Goal 2, Investments, for which the agency spends the highest percentage of its total budget.

In your responses to the enclosed questions, please provide the subcommittees with any relevant, necessary context information. If the agency has any concerns about the format of these questions yielding answers that do not provide an accurate reflection of the agency, please express those concerns, prior to responding to the question, in a written letter with a copy to staff for the subcommittee. Please retain your working papers for these responses in the event the subcommittee would like to view those.

In regards to the constituent testimony, it is our understanding, based on previous testimony from the individuals, that comments most likely relate to the lawsuit involving the Bank of New York Mellon (BNYM). The subcommittee seeks to find answers to questions raised by constituents. As the lawsuit relates to only a small part of the operations at the Treasurer's Office, it is the subcommittee's goal to use the questions about the lawsuit to help the subcommittee better understand the different roles of the Treasurer's Office and Retirement System Investment Commission (RSIC) as the subcommittee transitions into the study of the RSIC.

Sincerely,

Signature Redacted

Joshua Putnam  
Subcommittee Chair

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

**Goal 2:** Investments: Manage all investment programs in accordance with State law as applicable, in an effective manner while preserving capital, maintaining liquidity and obtaining the best return within the appropriate risk parameters.

### **Questions**

- 1) Please provide the following information for the investments managed by the Treasurer's Office:
  - a. Total return from cash investments, excluding securities lending (1year, 3year, 5year and 10year); and
  - b. Total return from cash investments including the impact of securities lending activity over the same periods.
  
- 2) Please provide the portfolio allocation for the investments managed by the Treasurer's Office each period from 2003-2016. Please use either 6/30 or 12/31 data for each year.
  
- 3) How large is the Treasurer's Office's research and portfolio management team? How does this compare to five and ten years ago?
  
- 4) Please provide the Bank of New York Mellon (BNYM) reports which include information on the peer group comparison of net returns for each quarter from 2003-2016 for the investments managed by the Treasurer's Office.
  - a. If no BNYM reports provide this information, how does the Treasurer's Office judge its performance against an appropriate peer group?
  
- 5) Please provide, for 2003-2016, the reports BNYM provides the Treasurer's Office related to its investments that are the equivalent to the performance reports that are offered by BNYM to RSIC each month.
  
- 6) Please provide how the investments managed by the Treasurer's Office rank against its peer groups in rate of return percentage and total earned, in the following ways:
  - a. Each fiscal year from 2003-2016;
  - b. 1, 3 and 5-year periods; and
  - c. 10 year period.
  
- 7) What internal bench marks does the Treasurer's Office use to assess performance? (i.e. BarCap Aggregate Bond Index)
  
- 8) Please provide the investment fees and expenses associated with investments managed by the Treasurer's Office for each fiscal year from 2003-2016 for South Carolina and the National Average in total investment fees and expenses and as a percentage of ending assets.

- 9) In the agency's presentation during the last meeting, the agency included a quote from Will Taylor at Wells Fargo which stated, "...Examples of these [objectives] are converting a large proportion of paper payments to electronic, high hurdles for Net Present Value savings on debt issuances and achieving yield on investments that rival those of some state pension plans." See Attachment A. In regards to this quote,
- a. Do you agree with the statement by Mr. Taylor? If so, what are the "yield on investments that rival those of some state pension plans," during the past ten years?
  - b. How did the Treasurer's office perform, compared to others, during bear markets<sup>1</sup>?
  - c. How did the Treasurer's office perform, compared to others, during bull markets<sup>2</sup>?
- 10) Included as Attachment B is a chart which illustrates the monthly General Fund investment earnings for fiscal year 2015 and 2016. In regards to the information in this chart,
- a. What are these funds invested in?
  - b. What is the least risky investment that would be found in this portfolio?
  - c. What is the most risky investment that would be found in this portfolio?
  - d. Can you please explain the strategy utilized in fiscal year 2016 which generated, during periods seven through twelve, a substantial increase in earnings from the previous year.
  - e. What happened in period ten of 2016 that doubled the earnings of prior periods?
  - f. What happened in period eleven of 2016, which caused the returns to go back down?
- 11) What is the liquidity need for each of the pools of capital for which the Treasurer's Office is responsible?
- 12) How is the Treasurer's Office investing the OPEB (Other Post-Employment Benefits) funds? In regards to these funds,
- a. What amount of risk is the Treasurer's Office taking?
  - b. How much risk is the Treasurer's Office permitted to take with these funds?

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<sup>1</sup> A market in which prices are falling, encouraging selling.

<sup>2</sup> A market in which share prices are rising, encouraging buying.

# **Attachment A**

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*“Treasurer Loftis has built a Banking Management Division comprised of extensive accounting, bank operations and SAP experience. Wells Fargo’s interaction with this staff has found these individuals to be inquisitive, fast learning and motivated to continue to be best in class.”*

*“Another objective we have observed is the goal to be “best in class” in all aspects of their duties as the State Treasurer’s Office. We find that the tactical objectives within each Division are well above average. These objectives are only met with hard work and talented staff. Examples of these are converting a large proportion of paper payments to electronic, high hurdles for Net Present Value savings on debt issuances and achieving yield on investments that rival those of some state pension plans. Treasurer Loftis has inspired a work ethic and motivation that resembles many competitive businesses.*

**Will Taylor, Wells Fargo**

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# **Attachment B**

Monthly General Fund Investment Earnings

\*Note: Transactions are still being recorded in FY2016 so these amounts may change

<b>Period</b>	<b>FY2016</b>	<b>FY2015</b>	<b>% difference 2015 to 2016</b>
1	\$1,514,959	\$1,626,349	-6.85%
2	\$1,334,294	\$1,433,868	-6.94%
3	\$1,611,703	\$1,431,606	12.58%
4	\$1,191,958	\$1,271,805	-6.28%
5	\$1,413,390	\$1,189,434	18.83%
6	\$1,855,656	\$1,775,208	4.53%
7	\$2,080,331	\$1,516,914	37.14%
8	\$2,476,347	\$1,546,683	60.11%
9	\$2,507,646	\$1,616,893	55.09%
10	\$4,888,365	\$1,287,602	279.65%
11	\$2,004,291	\$1,239,172	61.74%
12	\$2,297,891	\$1,775,662	29.41%