

South Carolina State Treasurer's Investment Portfolios Investment Policy Statement



Effective: April 1, 2024

Revised: March 2023



MISSION

The South Carolina Office of the State Treasurer is responsible for the administration, management, and investment of the State's funds. The investment of Government Investment funds is managed through multiple investment portfolios to preserve 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 (Government Investment Portfolios). The office manages multiple U.S fixed income portfolios.

PURPOSE OF THIS INVESTMENT POLICY STATEMENT (IPS)

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

- Articulate the objectives of the STO Government Investment Portfolios and set forth in writing the expectations, objectives, and guidelines for the investment of the STO Investment Portfolios' assets;
- Formulate policies and guidelines 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 Government Investment Portfolios must be invested in a manner that meets the requirements of this IPS. In conjunction with this IPS, the STO has also established Performance Standards, which provide guidance on the specific procedures to monitor investment performance and risk. These performance standards help achieve short-term and long-term investment objectives and maximize the investment returns in the STO Investment Portfolios.

DELEGATION OF AUTHORITY

The authority to invest State Government Investment Funds is limited to the State Treasurer under S.C. Code of Laws § 11-13-30, and § 6-6-10 which sets the authority for the Local Government Investment Pool.

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

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

BROAD OBJECTIVES

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

This policy recognizes that investment decisions involve managing the State's daily fluctuating cash flows and anticipating future revenues and expenditures. The STO through its Investment Adviser(s) manages



South Carolina State Treasurer's Investment Portfolios Investment Policy Statement

cash balances available to anticipate the future use of these funds. Also, earnings on investments provide one of the 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 – Securities that qualify as liquid assets are defined within each portfolio's liquid asset requirements.

Preservation of Capital – In order to minimize the potential for loss of principal, only 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.

Rate of Return – Enhancement of purchasing power through consistent compounding of underlying principal at rates exceeding the portfolio's respective benchmark.

Investment policies and procedures shall comply with applicable state law and are designed to guide and assist the STO Staff toward achieving the stated objectives. To meet these objectives, various resources may be used, including an Investment Advisor, an Electronic Marketing Communications Network (i.e. Bloomberg), various economic reports, and daily communication with various brokers and financial institution investment officers.



PERFORMANCE STANDARDS

The STO has developed investment performance standards as a management tool to monitor performance and compliance issues in the Government 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 Government 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 | Short-term bias | Primary: iMoneyNet Taxable Instl Reference: 80% 90-day T-Bills 20% BB Short-term Govt/Credit |
| GF | State General Fund / General Deposit | Short/intermediate bias | BBC 1-3 Yr Govt/Credit |
| 01 | State Investment Pool / General Deposit | Medium-term bias | BBC 1-5 Yr Govt/Credit |
| SB | Insurance Reserve Fund / General Deposit | Long-term bias | BBC Intermediate Govt/Credit |
| 03 | Long Term Pool / General Deposit | Long-term bias | BBC Govt/Credit |
| HI | SC Retirement Health Insurance – OPEB | Long-term bias | BBC Intermediate Govt/Credit |
| DI | Long Term Disability Insurance – OPEB | Long-term bias | BBC Govt/Credit |
| AD | USC Insurance & Stock Trust* | n/a | n/a |
| CRA | Composite Reservoir Account | 1 day | Overnight Bank Funding Rate (OBFR) |
| EI | Education Improvement Fund / General Deposit | 0-90 days | Overnight Bank Funding Rate (OBFR) |
| SA | Ordinary Sinking Fund | Short-term bias | Overnight Bank Funding Rate (OBFR) |
| 04 | Treasury Fund/ General Deposit | Short/Intermediate bias | BBC 1-3 Yr Government |

Shading indicates Investment Portfolios being monitored and reviewed by Investment Consultant.

*Given the portfolio structure, this portfolio is not measured against a benchmark.



OBJECTIVES & PARAMETERS OF SPECIFIC INVESTMENT PORTFOLIOS

Each STO Government 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 Government Investment Portfolios are *General Deposit Portfolios* while others are *Separate Portfolios*.

General Deposit Portfolios

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

Separate Portfolios

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

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



South Carolina State Treasurer's Investment Portfolios Investment Policy Statement

| | Local Government Investment Pool | State General Fund | State Investment Pool | Insurance Reserve Fund |
|-----------------------------------------------|-----------------------------------------------------------------------------------------------------|----------------------------------|----------------------------------|----------------------------------|
| Benchmark | Primary: iMoneyNet Taxable Institutional Idx Reference: 80% T-Bills and 20% BBC Shrt Term G/C | BBC 1-3 Yr Govt/Credit | BBC 1-5 Yr Govt/Credit | BBC Inter Govt/Credit |
| Liquidity | | | | |
| Min % Daily liquid assets | 10% | 10% | 10% | --- |
| Min % Monthly liquid assets | --- | --- | --- | 10% |
| Non-government Securities | | | | |
| a. CD's | 0-100% | --- | --- | --- |
| b. Repurchase Agreements | 0-100% | 0-50% | 0-50% | 0-50% |
| c. Total Credit ¹ | 0-100% | Up to +55% of index ³ | Up to +55% of index ³ | Up to +55% of index ³ |
| d. Asset Backed Securities | 0% | 0-5% | 0-5% | 0-5% |
| e. Private Placements ² | 0-10% | 0-10% | 0-10% | 0-10% |
| Diversification | | | | |
| Max Position Size ⁴ | 5% | 3% | 3% | 3% |
| Max US\$ Foreign Govt & Intl Org | 20% | 20% | 20% | 20% |
| Max Allocation per Industry | 25% (except Financials) | 25% | 25% | 25% |
| Max Financial Industry | 70% | 25% | 25% | 25% |
| Max Asset Backed Securities Issuer Size | --- | 1% | 1% | 1% |
| Max Security Level Position to Total Issuance | 5% | 5% | 5% | 5% |
| Maturity | Corporate: 397 days or less US Government: 2 years or less | Full Range | Full Range | Full Range |
| Repurchase Agreements | | | | |
| Max term | 30 days | 30 days | 30 days | 30 days |
| Collateral of Principal & Interest | 102% | 102% | 102% | 102% |
| Commercial Paper | | | | |
| Ratings | A1+ A-1/P-1/F1 A-2/P-2/F2 | A1+ A-1/P-1/F1 A-2/P-2/F2 | A1+ A-1/P-1/F1 A-2/P-2/F2 | A1+ A-1/P-1/F1 A-2/P-2/F2 |
| Split Ratings | Allowed | Allowed | Allowed | Allowed |
| Max Allocation to Tier 2 ⁵ | 10% | 10% | 10% | 10% |
| Max Allocation per Issuer | 5% | 3% | 3% | 3% |
| Max Allocation per Industry | 25% (financials: 70%) | 25% (financials: 70%) | 25% (financials: 70%) | 25% (financials: 70%) |
| Max Allocation to Asset-Bckd CP | 25% | 25% | 25% | 25% |
| Minimum Program Size | >\$750mm | >\$750mm | >\$750mm | >\$750mm |
| Portfolio Characteristics | | | | |
| Min Quality ⁶ | P-1/A-1 | A- | A- | A- |
| Effective Duration | --- | ±30% of index | ±30% of index | ±30% of index |
| Weighted Average Maturity | ≤90 days | --- | --- | --- |
| Weighted Average Life | ≤120 days | --- | --- | --- |

¹ Including commercial paper, corporate notes, certificates of deposits, asset-backed securities, and fixed and floating rate securities depending on the portfolio.

² Rule 144a securities without registration rights are prohibited.

³ Corporate securities are limited to 50% above its benchmark exposure. Asset-backed securities are limited to 5% of the total portfolio value.

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

⁵ No more than 10% to be held in second-tier securities: Split paper (e.g. A-1/P-2 or A-2/P-2/F-1 or tier 2 (e.g. A2/P2, A2/P2/F2)).

⁶ Portfolio Minimum Quality for the Local Government Investment Pool, Ordinary Sinking Fund, and Education Improvement Fund refer to Short-term Credit Ratings. Portfolio Minimum Quality for all other portfolios refer to Long-Term Credit Ratings.



South Carolina State Treasurer's Investment Portfolios Investment Policy Statement

| | Long Term Pool | SC Retirement Health Insurance - OPEB | Long-Term Disability Insurance |
|-----------------------------------------------|----------------------------------|---------------------------------------|----------------------------------|
| Benchmark | BBC Govt/Credit | BBC Inter Govt/Credit | BBC Govt/Credit |
| Liquidity | | | |
| Min % Daily liquid assets | --- | --- | --- |
| Min % Monthly liquid assets | 10% | 10% | 10% |
| Non-government Securities | | | |
| a. CD's | --- | --- | --- |
| b. Repurchase Agreements | 0-50% | 0-50% | 0-50% |
| c. Total Credit ¹ | Up to +55% of index ³ | Up to +55% of index ³ | Up to +55% of index ³ |
| d. Asset Backed Securities | 0-5% | 0-5% | 0-5% |
| e. Private Placements ² | 0-10% | 0-10% | 0-10% |
| Diversification | | | |
| Max Position Size ⁴ | 3% | 3% | 3% |
| Max US\$ Foreign Gov t& Intl Org | 20% | 20% | 20% |
| Max Allocation per Industry | 25% | 25% | 25% |
| Max Financial Industry | 25% | 25% | 25% |
| Max Asset Backed Securities Issuer Size | 1% | 1% | 1% |
| Max Security Level Position to Total Issuance | 5% | 5% | 5% |
| Maturity | Full Range | Full Range | Full Range |
| Repurchase Agreements | | | |
| Max term | 30 days | 30 days | 30 days |
| Collateral of Principal & Interest | 102% | 102% | 102% |
| Commercial Paper | | | |
| Ratings | A1+ A-1/P-1/F1 A-2/P-2/F2 | A1+ A-1/P-1/F1 A-2/P-2/F2 | A1+ A-1/P-1/F1 A-2/P-2/F2 |
| Split Ratings | Allowed | Allowed | Allowed |
| Max Allocation to Tier 2 ⁵ | 10% | 10% | 10% |
| Max Allocation per Issuer | 3% | 3% | 3% |
| Max Allocation per Industry | 25% (financials: 70%) | 25% (financials: 70%) | 25% (financials: 70%) |
| Max Allocation to Asset-Bckd CP | 25% | 25% | 25% |
| Minimum Program Size | >\$750mm | >\$750mm | >\$750mm |
| Portfolio Characteristics | | | |
| Min Quality ⁶ | A- | A- | A- |
| Effective Duration | ±30% of index | ±30% of index | ±30% of index |
| Average Maturity | --- | --- | --- |

¹ Including commercial paper, corporate notes, certificates of deposits, asset-backed securities, and fixed and floating rate securities depending on the portfolio.

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³ Corporate securities are limited to 50% above its benchmark exposure. Asset-backed securities are limited to 5% of the total portfolio value.

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

⁵ No more than 10% to be held in second-tier securities: Split paper (e.g. A-1/P-2 or A-2/P-2/F-1 or tier 2 (e.g. A2/P2, A2/P2/F2)).

⁶ Portfolio Minimum Quality for the Local Government Investment Pool, Ordinary Sinking Fund, and Education Improvement Fund refer to Short-term Credit Ratings. Portfolio Minimum Quality for all other portfolios refer to Long-Term Credit Ratings.



South Carolina State Treasurer's Investment Portfolios Investment Policy Statement

| | Education Improvement Fund | Ordinary Sinking Fund | Treasury Fund |
|-----------------------------------------------|------------------------------------|------------------------------------|-----------------------|
| Benchmark | Overnight Bank Funding Rate (OBFR) | Overnight Bank Funding Rate (OBFR) | BBC 1-3 Yr Government |
| Liquidity | | | |
| Min Daily liquid assets | 10% | 10% | 10% |
| Min % Monthly liquid assets | --- | --- | --- |
| Non-government Securities | | | |
| a. CD's | --- | --- | --- |
| b. Repurchase Agreements | 0-100% | 0-100% | 0% |
| c. Total Credit ¹ | 0-100% | 0-100% | 0-100% |
| d. Asset Backed Securities | 0% | 0% | 0% |
| e. Private Placements ² | 0-10% | 0-10% | 0% |
| Diversification | | | |
| Max Position Size ³ | 5% | 3% | --- |
| Max US\$ Foreign Govt & Intl Org | 20% | 20% | --- |
| Max Allocation per Industry | 25% (except Financials) | 25% (except Financials) | --- |
| Max Financial Industry | 70% | 70% | --- |
| Max Asset Backed Securities Issuer Size | 0% | 0% | --- |
| Max Security Level Position to Total Issuance | 5% | 5% | --- |
| Maturity | 90 days or less | 90 days or less | Full Range |
| Repurchase Agreements | | | |
| Max term | 30 days | 30 days | 30 days |
| Collateral of Principal & Interest | 102% | 102% | 102% |
| Commercial Paper | | | |
| Ratings | A1+ | A1+ | --- |
| | A-1/P-1/F1 | A-1/P-1/F1 | --- |
| | A-2/P-2/F2 | A-2/P-2/F2 | --- |
| Split Ratings | Allowed | Allowed | --- |
| Max Allocation to Tier 2 ⁴ | 10% | 10% | --- |
| Max Allocation per Issuer | 5% | 3% | --- |
| Max Allocation per Industry | 25% (financials: 70%) | 25% (financials: 70%) | --- |
| Max Allocation to Asset-Bckd CP | 25% | 25% | --- |
| Minimum Program Size | >\$750mm | >\$750mm | --- |
| Portfolio Characteristics | | | |
| Min Quality ⁵ | P-1/A-1 | P-1/A-1 | Aa1/AA+ |
| Effective Duration | --- | --- | ±30% of index |
| Average Maturity | --- | --- | --- |

¹ Including commercial paper, corporate notes, asset-backed securities, and fixed and floating rate securities depending on the portfolio.

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³ Obligations issued or guaranteed by the US government, US agencies, or US government-sponsored enterprises are eligible for inclusion without limit.

⁴ No more than 10% to be held in second-tier securities: Split paper (e.g. A-1/P-2 or A-2/P-2/F-1 or tier 2 (e.g. A2/P2, A2/P2/F2)).

⁵ Portfolio Minimum Quality for the Local Government Investment Pool, Ordinary Sinking Fund, and Education Improvement Fund refer to Short-Term Credit Ratings. Portfolio Minimum Quality for all other portfolios refer to Long-Term Credit Ratings.



South Carolina State Treasurer's Investment Portfolios
Investment Policy Statement

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 - 10/31/17 | 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 |
| 11/01/17 - current | Primary: iMoneyNet Taxable Inst. Reference: 80%BofAML 3mo T-Bills 20% BBC Short-term Govt/Credit | BBC 1-3 Yr Govt/Credit | BBC 1-5 Yr Govt/Credit |

| | Insurance Reserve | Long-Term Pool | SCRHI | LTDI |
|--------------------|-------------------------------------------------------------|---------------------------------------------|-------------------------------------------------------------|-------------------------------------------------------------|
| Previously | 100% BC Aggregate | 100% BC Aggregate | 100% BC Aggregate | 100% BC Aggregate |
| 10/1/15 - 2/28/16 | 15% BofAML 3 mo T-Bills 5% S&P US CP 80% BC Aggregate | 10% BofAML 3 mo T-Bills 90% BC Aggregate | 20% BofAML 3 mo T-Bills 5% S&P US CP 75% BC Aggregate | 20% BofAML 3 mo T-Bills 5% S&P US CP 75% BC Aggregate |
| 3/1/16 - 12/31/16 | 20% BofAML 3 mo T-Bills 80% BC Aggregate | 20% BofAML 3 mo T-Bills 80% BC Aggregate | 25% BofAML 3 mo T-Bills 75% BC Aggregate | 25% BofAML 3 mo T-Bills 75% BC Aggregate |
| 1/1/17 - 10/31/17 | | | 20% BofAML 3 mo T-Bills 80% BC Aggregate | 20% BofAML 3 mo T-Bills 80% BC Aggregate |
| 11/01/17 - current | BBC Intermediate Govt/Credit | BBC Govt/Credit | BBC Intermediate Govt/Credit | BBC Govt/Credit |



South Carolina State Treasurer's Investment Portfolios
Investment Policy Statement

| | Edu. Improvement Fund | Ord. Sinking Fund | Treasury Fund |
|--------------------|------------------------------------|------------------------------------|-----------------------|
| Previous | 100% Fed Funds Rate | 100% Fed Funds Rate | 100% BC Govt 1-3 Yr |
| 11/01/17 - current | Overnight Bank Funding Rate (OBFR) | Overnight Bank Funding Rate (OBFR) | BBC 1-3 Yr Government |