

2013-14

South Carolina State Treasurer's Office
Annual Investment Plan



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Contents

INTRODUCTION	3
INVESTMENT MANAGEMENT DIVISION	4
Investment Management Division Overview:	4
Investment Management Division Objective:	5
Investment Management Division Authority:	6
Investment Management Division Options:	6
Investment Management Division Advisor:	7
Investment Management Division Practices:	7
Investment Management Division Performance Measures:	8
Investment Management Division Market Valuation:	9
Investment Management Division Portfolio Summary/Asset Allocation Guidelines:	10

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.

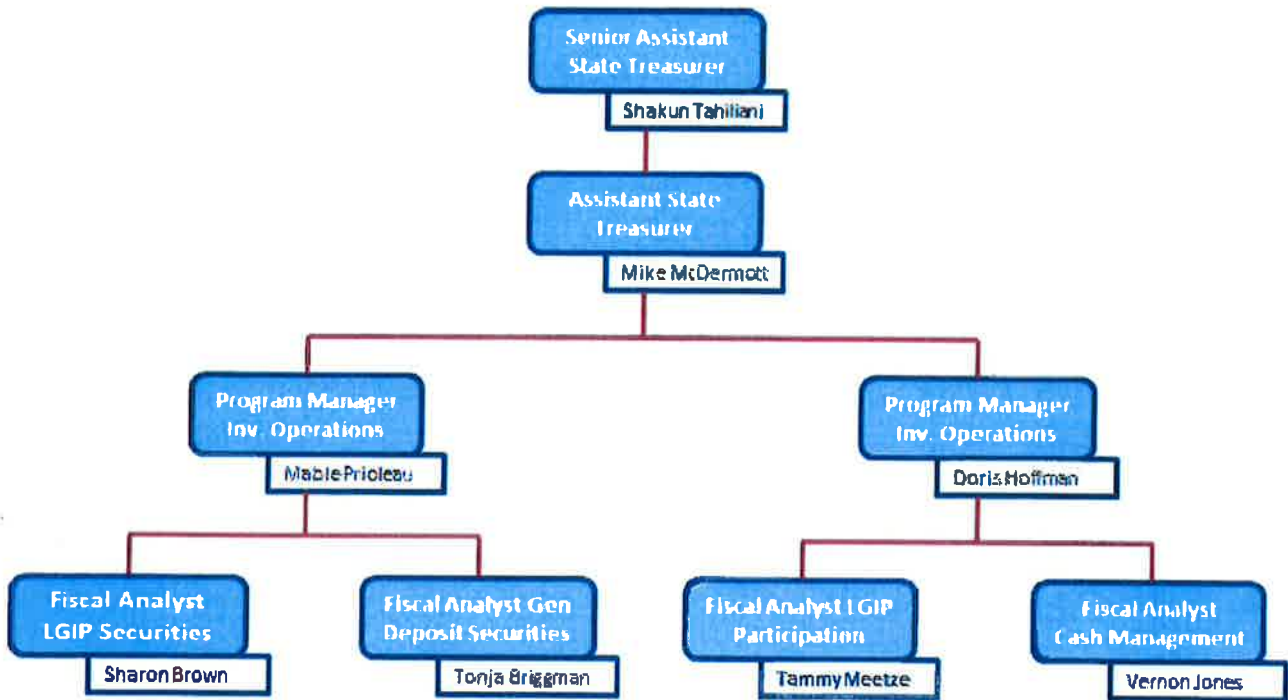
INVESTMENT MANAGEMENT DIVISION

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
O1	State Investment Pool	Medium-term bias, no restrictions	Barc 1-3y Gov/Cr
O3	Long Term Pool	Long-term bias	Barclay's Aggregate
O4	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/Suprntl		0 - 3%
~ Yankee		0 - 3%
~ 144c/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/Suprntl		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/Suprntl		0 - 5%
~ Yankee		0 - 3%
~ 144a/Private		0 - 3%
Mortgage		5 - 30%
~ GNMA		5 - 30%
~ FNMA		0%
~ CMO		0 - 5%
SBA's		5 - 20%
Municipal		0 - 2%
Floating Rate Notes		20 - 40%
~ Agency		0 - 5%
~ Industrial		0 - 10%
~ Financial		0 - 15%
~ Utility		0 - 3%
~ Sov/Suprntl		0 - 5%
~ Yankee		0 - 3%
~ 144a/Private		0 - 3%
~ Municipal		0 - 3%
Cash Equivalent		10 - 30%
~ Commercial Paper		10 - 30%
~ Certificates of Deposit		0 - 5%
Money Reserve		10 - 50%
~ Repo		10 - 40%

State Investment Pool:

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

Insurance Reserve Fund:

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

Long Term Pool:

Portfolio Policy Allocation LONG TERM POOL		
Sector	Index % (Barclay's Aggregate)	Policy Allocation
US Treasury	35%	0 - 50%
US Agency	6%	0 - 20%
Credit	26%	30 - 60%
~ Industrial		10 - 35%
~ Financial		0 - 10%
~ Utility		10 - 20%
~ Sov/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 - 50%
~ 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%