

**State of South Carolina**

**Public Employee Benefit Authority**

**Investment Policy Statement for the  
South Carolina Deferred Compensation Program  
401(k) and 457 Plans**

**March 2018**

## TABLE OF CONTENTS

	<b>PAGE</b>
INTRODUCTION.....	1
OBJECTIVES OF THE PLANS' INVESTMENT PROGRAM.....	1
ROLES AND RESPONSIBILITIES .....	2
INVESTMENT OPTION SELECTION, MONITORING, AND REPORTING .....	2
INVESTMENT OPTIONS .....	4
INVESTMENT OPTION FEES & EXPENSE STANDARS .....	5
PROVISION OF INVESTMENT ADVICE TO PARTICIPANTS.....	6
INVESTMENT OPTION EVALUATION .....	7
TERMINATION OF INVESTMENT OPTION .....	8
CHANGES TO INVESTMENT POLICY.....	8
SIGNATURES.....	8

## **Introduction**

The Board of Directors (“Board”) of the South Carolina Public Employee Benefit Authority (“PEBA”) hereby adopts this amended Investment Policy Statement (“IPS”) for the South Carolina Deferred Compensation Program (“Program”), which consists of the State of South Carolina Salary Deferral [401(k)] and Savings Profit Sharing Plan and Trust and the State of South Carolina 457 Deferred Compensation Plan and Trust (“Plans”).

## **Objectives of the Plans’ Investment Program**

The Plans covered by this IPS provide individual participants the opportunity to save for retirement in a federal tax efficient structure. The objective of the IPS is to define an investment structure that will provide participants the education and designated investment alternatives appropriate to create a retirement benefit that meets their individual retirement goals. Monitoring criteria herein have been developed to provide prudent investment oversight with guidance for Plans’ fiduciaries to use in carrying out their roles and responsibilities. The covered Plans have an administrative vendor to provide participant reporting, education, investment advice and a platform for the participants to access the designated investment options. The covered Plans may have banks, insurance companies, investment managers and funds that offer the designated investment options.

The designated investment options offered in these Plans are selected according to best practice guidance and based on their categorization into lower, intermediate and higher risk/return categories.

This IPS serves the following objectives:

- To ensure that a broad range of investment options are offered to Program participants;
- To establish an investment program that will allow Program participants the opportunity to structure an investment strategy that meets their individual return objectives and risk tolerances;
- To define the investment categories offered by the Plans’ investment program;
- To establish criteria for the selection, monitoring and termination of each investment category offered within the Plans’ investment program;
- To establish performance standards for each investment and to evaluate each option’s performance against appropriate benchmarks and standards; and
- To establish a procedure for selecting, reporting, monitoring, freezing or terminating the Plans’ various investment options.

## **Roles and Responsibilities**

### ***Board***

- To understand the objectives of the Program;
- With the assistance of the Investment Consultant, to select and monitor designated investment options in accordance with Program objectives;
- With the assistance of the Investment Consultant and the Program's other professionals, to approve, review and maintain this IPS; and
- With the assistance of the Investment Consultant, to ensure that a broad range of investment options is offered to Program participants.

### ***Investment Consultant***

- To act with discretion when recommending investment options that are in line with the asset classes outlined in this policy;
- To advise PEBA on the selection of vendors for the Program;
- To monitor investment options for compliance with guidelines and performance objectives;
- To provide quarterly reporting and periodic meetings;
- To recommend replacement of investment options in compliance with this IPS; and
- To perform its fiduciary duties in compliance with all applicable rules and regulations and prudent investor standards and conform to all applicable laws governing the investment of retirement funds.

### ***Vendor for Administrative services***

- To provide recordkeeping services;
- To provide participant education and materials;
- To provide a platform for designated investment options that incorporate vendor's retirement philosophy and offerings with market best practices and peer Plan structures; and
- To provide service levels and fees as defined in the service contract.

## **Investment Option Selection, Monitoring and Reporting**

Consistent market best practice criteria are used to select, monitor and recommend changes to the Plans' investment options.

The Investment Consultant will periodically review the level of diversification offered by the Plans' menu of investment options and investment categories.

## Investment Policy Statement

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The Investment Consultant will prepare a performance monitoring report at least quarterly that evaluates the investment options and determines if the fund remains appropriate or should be assigned Watch List or other status. The quarterly report may also include an overview of current trends and developments in the capital markets and investment management community (market review). All funds will be compared to a benchmark using risk (standard deviation) and return (geometric average) to assess their position on the risk spectrum of appropriate options.

The below criteria pertain to all core investment options. The Stable Value Fund, the Global Tactical Asset Allocation Fund, the Lifecycle Funds, and Passive/Index funds, are evaluated using the Performance, Manager Tenure and Expense criteria and certain other criteria specific to those funds.

- **Performance =/> Benchmark:** To equal or exceed the return of the specified benchmark, net of fees, over a full market cycle, or generally a period of 3 to 5 years.
- **Universe Ranking =/> 50<sup>th</sup> Percentile:** To equal or exceed the median return of a publicly available peer universe over a full market cycle, or generally a period of 3 to 5 years.
- Style consistency based on a holdings-based analysis.
- Manager tenure to evaluate key staff turnover.
- Expense levels consistent with this IPS selection guidelines.

### **Stable Value Fund**

- To maintain an average investment grade credit quality rating and liquidity consistent with the fact sheet and fund guidelines.

### **Global Tactical Asset Allocation Fund**

- Asset Allocation and style analysis compared to the fund prospectus guidelines. The fund's primary prospectus benchmark will be used for performance evaluation.

### **Lifecycle Funds**

- Each fund in the series will be compared to its asset class weighted custom benchmark. Tracking error will be measured and adjusted for the impact of fees.
- Peer Universe comparisons are not relevant.

### **Passive Funds**

- Each passive option will be compared to the benchmark index based on tracking error and net of fee performance.
- Peer universe comparisons are not relevant.

Based on the results of these periodic reviews and the recommendations of the Plans' Investment Consultant, the Board has the discretion to add, replace or terminate investment options and/or add new or delete existing investment categories.

## Investment Policy Statement

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### Prohibited Investments

The following investment options are generally prohibited going forward from the date of IPS adoption:

- Options that have a front-end or deferred load or 12(b)-1 fees in excess of 25 bps;
- Options that are not daily valued;
- Any option with a liquidity restriction at the individual participant, or total plan level, exceeding 12 months;
- Options that do not have at least a three-year live performance track record and sufficient Assets Under Management (AUM) so that the Plans' allocation is less than 10% of the option AUM. Options with a performance track record that is associated with another option with a three-year track record are permitted. This includes other share classes of the same fund or strategies offered in other vehicles (separate accounts, commingled trusts); and
- Real Estate strategies that are a) value added or opportunistic in nature, b) closed-end funds or those with liquidity restrictions, c) concentrations in geography or property type, and d) strategies that utilize leverage in excess of 30 percent.

### Investment Options

The Program includes core investment options, as well as a Brokerage Link (i.e., self-directed brokerage option). The plans will offer at least one option from each category. For each investment class, the comparative benchmark for monitoring purposes is shown.

#### Core Investment Options and Benchmark Indices

##### *Low Risk Options*

Stable Value Fund (1-3 year US Treasury)

Fixed Income (Barclay's US Aggregate)

Inflation Protected Bonds (Barclays US TIPS)

##### *Intermediate Risk Options*

Large Cap US Equity (Active and/or Passive) (S&P500)

Mid Cap US Equity (Active and/or Passive) (Russell Mid Cap)

Global Tactical Asset Allocation Fund (CPI and 60/40 stock/bond)

##### *Higher Risk Options*

Small Cap US Equity (Active and/or Passive) (R2000)

Global Equity (MSCI ACWI)

International Equity (MSCI (EAFE))

## Investment Policy Statement

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### ***Default Investment Option***

#### Lifecycle Funds (Passive) (Custom Benchmark)

The Lifecycle Funds have been selected as the default options. These Funds provide a single, diversified alternative for retirement savings for participants in various stages of saving. The Funds allow the investor to take advantage of the diversification and asset allocation strategies that are professionally managed and consistent with the date of retirement. The default option selected is intended to be consistent with the Qualified Default Investment Alternative (“QDIA”) guidance as defined by current regulations. The most conservative investment option within the Lifecycle series, the Target Retirement Income Fund, will be selected as the default for any participant whose birth date is not available to the record keeper.

Each core investment option offered under the Program shall:

- Operate in full accordance with its current published prospectus or fact sheet; and
- Have its performance results measured against the applicable performance standards described herein.

The Board’s Retirement Policy Committee (“Committee”) and PEBA staff assist the Board in the selection and monitoring of the core investment options offered by the Program. The Committee will work closely with the Investment Consultant to determine the appropriate recommendations to the Board.

### **Brokerage Link**

The Brokerage Link is offered to participants as a supplement to the core investment options of the Program. The Brokerage Link is intended for participants interested in a wider array of investment options who are willing to accept the additional risk and responsibility associated with those options.

The Committee has no responsibility for monitoring or evaluating investment options available through the Brokerage Link. Participants have sole discretion regarding the investment options they select and will be responsible for the ongoing research, trading, and risk management associated with their specific investment choices.

Participants must have a minimum balance of \$2,500.00 in Program assets to utilize the brokerage link. Participants may invest no more than 50% of their Program assets within the brokerage link, and all transfers to this option must be at least \$1,000.00.

### **Investment Options: Fees & Expense Standards**

The Consultant will review the fee structure of the vendors, investment managers and the investment options at least annually. Expenses for each of the investment options should be appropriate and competitive versus asset class peers. Where several share classes of an investment fund are available, the Program will seek to offer the most cost effective class available.

## Investment Policy Statement

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For options added to the Plans subsequent to the date of this IPS, expenses must not exceed the total in the following table. This expense includes all investment expenses such as the investment management expense ratio, 12(b)-1 fees, mortality charges, administrative charges or any other charge against the investment account of the participant.

<b>Asset Class</b>	<b>Maximum Expense Ratio</b>
Active Bond	0.50%
Bond Index	0.25%
Active Large Cap, Mid Cap, Target Maturity/Asset Allocation	1.00%
Small Cap	1.20%
Foreign Stock (Developed and Emerging Market)	1.20%
US and Foreign Equity Index	0.30%
Real Estate	1.25%

### **Provision of Investment Advice to Participants**

The Program may offer investment advice and managed accounts for participants. These services will use the respective Plans' designated investment options. In the course of providing these services, vendors will be expected to:

- Accept fiduciary responsibility in the provision of said advice to participants;
- Incorporate a holistic approach to the participants' financial situation, taking into consideration their overall financial circumstances, retirement objectives, risk tolerance and additional sources of post-retirement income and other assets to the extent possible;
- Provide documentation of the models used to set participants' asset allocations so that consistency of advice can be monitored by the Investment Consultant and the Vendor;
- Ensure that its advisors are properly trained and possess adequate experience, certification, and licensing;
- Provide adequate coverage across the State of South Carolina so that advisors are accessible to participants via personal meetings, group seminars, scheduled office hours, web access or telephone service; and
- Properly disclose to the Investment Consultant, PEBA and to participants all fees associated with the service.

PEBA and/or its Investment Consultant will periodically review the advisory service to determine if the offering and fees are appropriate for the Program and competitive within the marketplace.

## **Investment Education**

Vendors shall provide Program participants with general financial and investment information to educate and assist them in making their allocation decisions. Such participant assistance may include offering participants the option to enroll in eligible investment advice arrangements including managed account and discretionary services.

## **Investment Option Evaluation**

### **Informal Review**

The Investment Consultant, at its discretion or at the direction of PEBA, may conduct an informal review and evaluation of an investment option at any time.

### **Formal Review (Watch List)**

The Investment Consultant, at its discretion or at the direction of PEBA, may place an investment option under formal review (Watch List). Reasons for these actions may include:

- **Relative Underperformance (active investments):** The investment option's cumulative return over a three and five year period trails the relevant index on an annualized basis;
- **Deviation from Investment Style:** The investment option will be considered to have deviated from its style or capitalization profile if it differs from the investment option's stated objective;
- **Organizational Changes or Issues:** The investment option undergoes organizational changes including, but not limited to, departure of key personnel *i.e.* portfolio manager, analyst, trader, *etc.*, or the firm has had state or federal regulatory action taken against it as a result of securities fraud;
- **Significant Loss of Assets and/or Clients:** The investment option suffers a large loss of clients and/or assets relative to the investment option's peers, industry and market conditions;
- **Poor Three and Five Year Peer Rankings:** The investment option's three and five-year peer rankings as measured in the appropriate peer group, fall below median;
- The investment option has violated an SEC rule or regulation; or
- **Fees and Fee Disclosure:** The investment option has violated best practice fee disclosure or the Investment Consultant otherwise determines that fees and other compensation charged by the investment option are no longer reasonable under the circumstances.

When an investment option is placed under formal review, the Investment Consultant shall conduct an evaluation of the investment option, its operations, and its performance and make a recommendation to the Committee. The Investment Consultant will provide documentation of the factors supporting the recommendation.

## Investment Policy Statement

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While an investment option is under formal review, the Board may decide to suspend contributions to the investment option. Upon completion of the evaluation and receipt of the Investment Consultant's recommendation, the Board may choose to continue the investment option under formal review (Watch List) status, remove the investment option from formal review, or terminate the investment option.

### Termination of Investment Option

Should the Board choose to terminate an investment option, they will promptly seek, with assistance from the Investment Consultant, a new investment option appropriate for the given asset class.

Plan participants will be notified that the Board has terminated the investment option as an investment option under the Plan.

With regard to the terminated investment option, the Board will assess the legal and contractual options available and may:

- Transfer, or "map," the monies in the terminated investment option to another investment option;
- Transfer, or "map", the monies in the terminated investment option to the Plan's QDIA;
- Supplement the investment option with one or more other investment options for that category and phase out the investment option over a specific time-period; or
- Close the investment option to future contributions, however, give the participants the option to keep, or remove, the monies in the closed investment option.

### Changes to Investment Policy

From time-to-time, the Board, in accordance with its discretion as prescribed by relevant Plan documents, may modify this IPS.

This IPS is adopted by the Board to be effective on March 7, 2018.

**The PEBA Board of Directors approved this policy on the date shown below.**

By:   
\_\_\_\_\_  
Chairman

3/7/18  
\_\_\_\_\_  
Date