

## State of South Carolina ( \$%#\_L'UbX'() + 'D`Ubg

# ANALYSIS OF INVESTMENT PERFORMANCE

## SUMMARY

June 2015

T & C | A E V | a @  
Senior Vice President

Pirie McIndoe

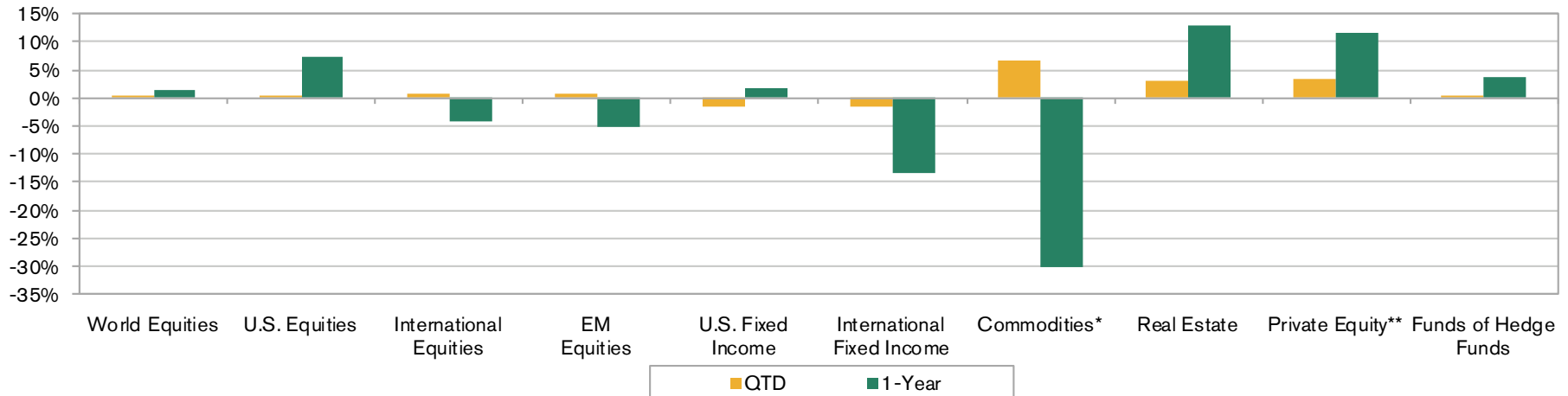
Rosemary Guillette

Senior Vice President

# Second Quarter 2015 Investment Performance: Summary by Asset Class

This section provides data on investment performance for select market indices mostly for the second quarter (Q2) 2015, as well as Segal Rogerscasey's commentary.

## Asset Class Summary: Quarter-to-Date (QTD) and One-Year Returns



Asset Class	Indices	QTD	YTD	1-Year	3-Year	5-Year	10-Year
Equities	MSCI World (Net of dividends)	0.31	2.63	1.43	14.27	13.10	6.38
	Russell 3000	0.14	1.94	7.29	17.73	17.54	8.15
	MSCI EAFE (Net of dividends)	0.62	5.52	-4.22	11.97	9.54	5.12
	MSCI EM (Net of dividends)	0.69	2.95	-5.12	3.71	3.68	8.11
Fixed Income	Barclays Capital Aggregate	-1.68	-0.10	1.86	1.83	3.35	4.44
	Citigroup Non-U.S. WGBI (Unhedged)	-1.54	-5.83	-13.49	-3.88	0.33	2.63
Other	Commodity Splice*	6.70	-0.89	-30.26	-9.74	-4.12	-4.44
	NCREIF NPI	3.14	6.83	12.98	11.63	12.72	8.16
	Thomson Reuters Private Equity**	3.35	11.75	11.75	15.48	14.39	11.99
	HFRI Fund of Funds Composite	0.11	2.61	3.86	6.24	4.08	3.20

World equity markets were positive in Q2. On a global developed factor\* basis, Growth, Quality and Momentum generally performed well, while Risk and Value performed poorly. International developed and emerging market equities modestly outperformed the U.S.

U.S. and international fixed income fell in Q2. Rising Treasury yields were a negative contributor to performance. The Federal Reserve (Fed) indicated that it would continue an accommodative policy.

Commodities ended Q2 in positive territory. On a sector basis, Energy and Grains had strong performance, while Livestock, Precious Metals and Industrial Metals posted negative returns.

Hedge fund of funds were slightly positive during Q2. With regard to direct hedge funds, Equity Hedge, Event-Driven and Relative Value gained while Macro declined.

\*Factors are attributes that explain differences in equity performance. Stocks are sorted based on their exposure to a particular factor, with the factor return being the difference in returns between stocks with high exposure and low exposure to a particular attribute.

\*Commodity Splice, a Segal Rogerscasey index, blends the Bloomberg Commodity Index, formerly known as the DJ UBS Commodity Index (50%) and the S&P GSCI Index (50%), rebalanced monthly.

\*\*Performance reported as of Q4 2014 because Q1 2015 and Q2 2015 performance data is not yet available.

Sources: eVestment Alliance, Investment Metrics, Thomson One and Hedge Fund Research, Inc.

**Fund Evaluation Sheet**  
**Quarter ended June 30, 2015**

Criteria	Investment Options										
	PIMCO Total Return Institutional	BlackRock Inflation Protected	Dodge & Cox Stock	T.Rowe Price Growth Stock	T. Rowe Price Mid Cap Value	Victory Munder Mid Cap Growth R6 <sup>4</sup>	American Beacon Small Cap Value Instl	AllianceBernstein Small Cap Growth	Fidelity Diversified International	American Funds EuroPacific R6	American Funds New Perspective
<b>Performance =&gt; Benchmark</b>											
3 year	Pass	Fail	Pass	Pass	Fail	Fail	Pass	Fail	Pass	Pass	Pass
5 year	Pass	Fail	Pass	Pass	Fail	Fail	Pass	Pass	Pass	Pass	Pass
<b>Universe Ranking =&gt; 50th Percentile</b>											
3 year	Fail	Pass	Pass	Pass	Fail	Pass	Pass	Fail	Pass	Pass	Pass
5 year	Fail	Pass	Pass	Pass	Fail	Pass	Pass	Pass	Pass	Pass	Pass
<b>Risk Adjusted Performance (Sharpe Ratio) =&gt; Benchmark</b>											
3 year	Pass	Fail	Pass	Fail	Pass	Fail <sup>5</sup>	Pass	Fail	Pass	Pass	Pass
5 year	Fail	Fail	Fail	Fail	Fail	Pass <sup>5</sup>	Pass	Pass	Pass	Pass	Pass
<b>Morningstar Overall Rating =&gt; 3 Stars</b>											
Overall	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass
<b>Consistency of Style =&gt; 4 of 6 Quarters</b>											
Style Box Rating	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass
Grade	5/8	4/8	7/8	6/8	3/8	5/8	8/8	5/8	8/8	8/8	8/8
Overall Pass/Fail <sup>1</sup>	Pass	Fail	Pass	Pass	Fail	Pass	Pass	Pass	Pass	Pass	Pass
Watchlist? <sup>2</sup>	No	Yes	No	No	Yes	No	No	No	No	No	No
Fund Review? <sup>3</sup>	No	No	No	No	Yes	No	No	No	No	No	No
Cummulative Quarters Failed	Zero	Two	Zero	Zero	Seven	Zero	Zero	Zero	Zero	Zero	Zero

<sup>1</sup> The Fund is measured against the 8 criteria listed above. At the end of each quarter, each fund must meet or exceed 5 of the 8 criteria in order to receive a passing grade. If less than 5 criteria receive a passing grade, the fund will receive a failing grade.

<sup>2</sup> If the fund received a failing grade, the fund will be placed on the Watch List and monitored for possible future action.

<sup>3</sup> If for a period of 4 consecutive quarters, the fund has received a failing grade, the fund will be placed under formal fund review.

<sup>4</sup> Longer term performance is not available for this fund; therefore, simulated performance has been utilized.

<sup>5</sup> Sharpe ratio for the 3-year and 5-year is based on share class Y due to lack of longer term performance.

**Fund Evaluation Sheet**  
**Quarter ended June 30, 2015**

	Investment Options								
Criteria	Stable Value	PIMCO All Asset Institutional	Vanguard Institutional Index	TIAA-CREF Small Cap Blend	SSgA Age-Based Income Funds	SSgA Age-Based 2020	SSgA Age-Based 2030	SSgA Age-Based 2040	SSgA Age-Based 2050
<b>Performance =&gt; Benchmark</b>									
<b>3 year (within 50 bps)*</b>	Pass	<b>Fail</b>	Pass	Pass	Pass	Pass	Pass	Pass	Pass
<b>5 year (within 50 bps)*</b>	N/A	<b>Fail</b>	Pass	Pass	Pass	Pass	Pass	Pass	Pass
<b>Performance =&gt; Secondary Benchmark</b>									
<b>3 year (within 50 bps)*</b>	N/A	<b>Fail</b>	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>5 year (within 50 bps)*</b>	N/A	<b>Fail</b>	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>Universe Ranking =&gt; 50th Percentile</b>									
<b>3 year</b>	N/A	N/A	N/A	N/A	<b>Fail</b>	Pass	Pass	Pass	<b>Fail</b>
<b>5 year</b>	N/A	N/A	N/A	N/A	Pass	Pass	Pass	Pass	Pass
<b>Risk Level (Standard Deviation) (within 50bps) = Standard Deviation of the Benchmark</b>									
<b>3 year</b>	N/A	N/A	Pass	Pass	N/A	N/A	N/A	N/A	N/A
<b>5 year</b>	N/A	N/A	Pass	Pass	N/A	N/A	N/A	N/A	N/A

\*This additional bps measure (50 bps) is due to the management fees of the mutual funds and small amounts of tracking error.

\*The Stable Value fund needs to outpace its benchmark over the 3 year period. The Index Fund and Age Based Funds need to replicate the benchmark over the periods measured.

\* The GTAA Fund needs to outpace its benchmark over the 3 year and 5 year period.

## **Summary & Conclusions**

Domestic equity as measured by the Russell 3000 Index returned 0.14% for the quarter. Both developed international equity and emerging markets bounced back in the first and second quarters, outperforming the US market with returns of 0.62% and 0.69%, respectively. The developed international markets were boosted by the Eurozone banks' announcement of easing monetary policy and quantitative easing. US fixed income and international fixed income were negative for Q2 period. In the US, rising Treasury yields continued to the poor performance of the asset class. In the US, real GDP grew at an annualized rate of 2.31% in the second quarter. Positive contributors included consumption, exports, and government spending. In the US labor market, unemployment continued to fall modestly, from 5.5% in Q1 to 5.3% in Q2.

The market value for the State of South Carolina 401(k) Program was \$2.8 billion on June 30, 2015. This represented an increase of \$24.5 million during the quarter, comprised of \$16.8 million in investment gains and \$8.5 million in net contributions and offset by \$0.8 million in fees. The 457(b) Plan was valued at \$935.4 million at the end of the second quarter, representing an increase of \$1.7 million over the quarter. This increase was comprised of \$5.7 million in investment gains offset by \$3.7 million in net distributions and \$0.3 million in fees during the quarter.

In summary, two active managers continued to fail the report card for the quarter. The two managers were BlackRock TIPS Fund and T.Rowe Price Mid Cap Value Fund. We conducted a formal review and onsite for the T.Rowe Price MCV fund. We do not currently recommend replacement of this fund. No other actions on any other funds are recommended at this time. Due to the performance of the strong performance of the managers for this quarter, no commentary was required.

**State of South Carolina 401(k) & 457 Plans  
Share Class Analysis**

Fund	Market Value	Current Share Class	Ticker	Expense Ratio*	Estimated Annual Fees	Revenue Share	Estimated Annual Revenue	Alternate Share Class
PIMCO Total Return Fund	\$ 131,876,170	Instl	PTTRX	0.46%	\$ 606,630	0.00%	\$ -	Lowest Share Class Available
BlackRock Inflation Protected Bond Fund**	\$ 21,414,524	Instl	BPRIX	0.46%	\$ 98,507	0.15%	\$ 32,122	Lowest Share Class Available
PIMCO All Asset Fund	\$ 2,668,684	Instl	PAAIX	0.88%	\$ 23,484	0.00%	\$ -	Lowest Share Class Available
Dodge & Cox Stock Fund	\$ 281,058,334	No Load	DODGX	0.52%	\$ 1,461,503	0.10%	\$ 281,058	Lowest Share Class Available
Vanguard Institutional Index Fund	\$ 445,502,927	Instl	VIIIX	0.02%	\$ 89,101	0.00%	\$ -	Lowest Share Class Available
T. Rowe Price Growth Stock Fund	\$ 192,598,087	No Load	PRGFX	0.69%	\$ 1,328,927	0.15%	\$ 288,897	Lowest Share Class Available
T. Rowe Price Mid Cap Value Fund	\$ 193,209,330	No Load	TRMCX	0.80%	\$ 1,545,675	0.15%	\$ 289,814	Lowest Share Class Available
Victory Munder Mid Cap Core Growth Fund	\$ 106,664,586	R6	MGOSX	0.95%	\$ 1,013,314	0.00%	\$ -	Lowest Share Class Available
American Beacon Small Cap Value Fund	\$ 31,096,939	Instl	AVFIX	0.81%	\$ 251,885	0.00%	\$ -	Lowest Share Class Available
TIAA-CREF Small Cap Blend Fund	\$ 17,510,474	Instl	TISBX	0.13%	\$ 22,764	0.00%	\$ -	Lowest Share Class Available
AllianceBernstein Small Cap Growth Fund	\$ 48,405,443	Instl	QUAIX	0.91%	\$ 440,490	0.15%	\$ 72,608	Lowest Share Class Available
Fidelity Diversified International Fund**	\$ 109,415,604	No Load	FDIVX	0.91%	\$ 995,682	0.25%	\$ 273,539	Lowest Share Class Available
American Funds EuroPacific Growth Fund	\$ 92,047,001	R6	REGGX	0.49%	\$ 451,030	0.00%	\$ -	Lowest Share Class Available
American Funds New Perspective Fund	\$ 36,063,188	R6	RNPGX	0.45%	\$ 162,284	0.00%	\$ -	Lowest Share Class Available
SSgA Target Retirement Income Fund	\$ 100,879,633	II	N/A	0.17%	\$ 171,495	0.00%	\$ -	K Shares at 12 bps expense
SSgA Target Retirement 2020 Fund	\$ 105,764,324	II	N/A	0.17%	\$ 179,799	0.00%	\$ -	K Shares at 12 bps expense
SSgA Target Retirement 2030 Fund	\$ 67,339,648	II	N/A	0.17%	\$ 114,477	0.00%	\$ -	K Shares at 12 bps expense
SSgA Target Retirement 2040 Fund	\$ 36,432,059	II	N/A	0.17%	\$ 61,935	0.00%	\$ -	K Shares at 12 bps expense
Ssga Target Retirement 2050 Fund	\$ 3,062,483	II	N/A	0.17%	\$ 5,206	0.00%	\$ -	K Shares at 12 bps expense
	<b>\$ 2,023,009,438</b>				<b>\$ 9,024,188</b>		<b>\$ 1,238,038</b>	

\*Prospectus Net Expense ratio per Morningstar.

\*\*These managers offer a zero revenue share option, but that option is more expensive to participants because the current funds produce revenue which reduces the overall cost.

\*\*\*There is a lower share class available, but it is not currently available on the Empower platform.