

State of South Carolina  
Public Employee Benefit Authority

Investment Policy Statement for the  
South Carolina State Optional Retirement Program

December 7, 2022

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## 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 State Optional Retirement Program ("State ORP" or "Plan"). The State ORP is a defined contribution plan qualified under Section 401(a) of the Internal Revenue Code. The Plan is exempt from the Employee Retirement Income Security Act (ERISA) but will attempt to adhere to certain provisions of ERISA, where administratively possible and appropriate to do so.

## Objectives of the Plan's Investment Program

The Plan covered by this IPS provides 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 designated investment options appropriate to create a retirement benefit that meets their individual retirement goals. Investment options are proposed by each Third-Party Administrator ("Service Provider") in accordance with the guidelines set forth in this IPS. Participants select a Service Provider and direct the investments within their account using education and guidance provided by the State ORP, each Service Provider, the individual investment management companies, and other sources.

The primary function of PEBA and that of the Investment Consultant, as it pertains to the State ORP, is to set and monitor compliance with the guidelines set forth in the IPS. Monitoring criteria herein have been developed to provide prudent investment oversight with guidance for Plan fiduciaries to use in carrying out their roles and responsibilities.

This IPS serves the following objectives:

- To ensure that a broad range of investment options considered appropriate for a participant-directed retirement plan are offered to Plan participants;
- To establish an investment program that will allow Plan participants the opportunity to structure an investment strategy that meets their individual return objectives and risk tolerances;
- To control the number and types of options offered so participants can effectively exercise their discretion in managing their Plan assets;
- To define the asset classes and types of options that can be offered to Plan participants;
- To establish guidelines and minimum criteria for the initial selection and ongoing monitoring of investment options;
- To establish a protocol for investment options that fail to meet the criteria, including termination and replacement;
- To provide a written record of the guidelines and expectations related to the investment menu for each State ORP Service Provider.

## **Roles and Responsibilities**

### ***Board***

- To understand the objectives of the Plan;
- With the assistance of the Investment Consultant, to review the investment recommendations from the Service Providers and approve the selection of investment options in compliance with this IPS;
- With the assistance of the Investment Consultant and the Plan'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 considered appropriate for a participant-directed retirement plan is offered to Plan participants.

### ***Investment Consultant***

- To act as a co-fiduciary in advising, and making recommendations to, the Board regarding the Plan;
- To advise PEBA on the selection of Service Providers for the State ORP;
- To review investment recommendations from the Service Providers and advise on the selection of investment options in compliance with this IPS;
- To monitor investment options for compliance with guidelines and performance objectives;
- To provide quarterly reporting and attend periodic meetings; 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.

### ***Third-Party Administrator (Service Provider)***

- To provide services as defined in the contract, which consists of the solicitation for Recordkeeping/Administration, Communication/Education, Custodial Trustee Services and Investment Management Services (RFP) and the Service Provider's response to the RFP; and
- To propose investment option recommendations to the Investment Consultant and the Board.

### ***Participants***

- To allocate their assets amongst the investment options of their selected Service Provider. Participants and beneficiaries alone bear the risks and reap the rewards of investment results from the options and asset allocations that they select.

## Plan Investment Option Selection, Monitoring and Reporting

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

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 report will review the level of diversification offered by the Service Provider's menu of investment options and investment categories. 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 Guaranteed Annuity, Stable Value Fund, Lifecycle Funds, and Passive Funds, have certain unique criteria as discussed within each respective section below.

- **Performance => Benchmark:** To equal or exceed the return of the specified benchmark<sup>1</sup>, net of fees, over a full market cycle, or generally a period of 3 to 5 years.
- **Universe Ranking => 50th 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 holding's based analysis.
- Manager tenure to evaluate key staff turnover.
- Expense levels consistent with this IPS' selection guidelines.

### ***Guaranteed Annuity and Stable Value Options***

- A guarantee of preservation of principal and income supported by a reputable, financially secure insurance company with an A.M. Best rating of A or better, and/or a Moody's rating of A1 or better or its equivalent as determined by a nationally recognized statistical rating agency.
- Adequate liquidity to support the Plan's liquidity needs.
- Crediting rates that are competitive with similar products in the marketplace.
- Peer universe comparisons are not relevant to the evaluation.
- Current yield and time weighted rate of return will be compared to the benchmark.
- Current market-to-book value ratio will be evaluated (stable value funds only).

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<sup>1</sup> See Appendix.

***Lifecycle Funds***

- Asset class diversification based on review of the underlying holdings of the lifecycle fund offering.
- Fees and expenses in comparison to averages and as related to overall plan cost.
- Performance relative to other target date funds with similar objectives, custom benchmarks, category averages, and other benchmarks.
- Appropriate glidepath strategy, underlying assumptions, and investment process.
- Qualitative attributes (key personnel making asset allocation and investment decisions, manager's available resources and parent organization).

***Passive Funds***

- Compared to the benchmark index based on tracking error and net of fee performance.
- Peer universe comparisons are not relevant.

Additional qualitative analysis may also be provided to contextualize an investment option's quantitative performance and/or provide additional insight into the management practices, available resources, and investment strategy of the investment manager.

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

***Prohibited Investments***

The following investment options are generally prohibited going forward from the date of IPS adoption<sup>2</sup>:

- Options that have a front-end or deferred load or 12(b)-1 fees in excess of 25 bps, unless such investment provides the least expensive share class net-of-fees when taking into consideration any fee rebates provided to participants;
- 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 Plan's allocation is less than 10% of the option's 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

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<sup>2</sup> Certain legacy investment options approved under prior versions of the IPS may not necessarily meet all of these requirements.

- 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**

A Service Provider may offer State ORP participants a single investment option in each of the following major asset classes. It is not necessary that Service Providers offer a product or products in each category. To avoid possible confusion caused by a large number of investment options, no Service Provider may offer more than sixteen core investment options, with the Lifecycle Funds being counted as one investment option.

#### ***Core Investment Options***

- Low Risk Options
  - Stable Value Fund or Guaranteed Annuity
  - Money Market Fund
  - Fixed Income Fund
  - Inflation Protected Bonds or Real Asset Fund
- Intermediate Risk Options
  - Large Cap US Equity (Active and/or Passive)
  - Mid Cap US Equity (Active and/or Passive)
  - Global Tactical or static Asset Allocation Fund
- Higher Risk Options
  - Small Cap US Equity (Active and/or Passive)
  - Global Equity
  - International Equity
- Default Investment Option
  - Lifecycle Funds (Passive or Active)

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 are 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 Service Provider.

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Each core investment option offered in the State ORP 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. The Committee will work closely with the Investment Consultant to determine the appropriate recommendations to the Board.

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

The Investment Consultant will review the fee structure of the Service Providers, 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 State ORP will seek to offer the most cost-effective class available.

For options added to the Plan subsequent to the date of this IPS, net 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 Net Expense Ratio</b>
Active Bond	0.50%
Bond Index	0.25%
Active Large Cap, Mid Cap, Target Maturity / Asset Allocation	1.00%
Active Small Cap	1.20%
Foreign Stock (Developed and Emerging Market)	1.30%
US and Foreign Equity Index	0.30%
Real Estate	1.00%

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

The Plan may offer investment advice and managed accounts for participants. These services will use the investment options approved under these IPS guidelines. In the course of providing these services, Service Providers 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;



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- 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 Service Provider;
- 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 Plan and competitive within the marketplace.

### Investment Education

Service Providers shall provide Plan 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, 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 the direction of PEBA, may place an investment option under formal review (Watch List). Reasons for these actions may include, but are not limited to, the following:

- **Relative Underperformance (active investments):** The investment option's cumulative return over a three and/or 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;

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- **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/or 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 and Board otherwise determines that fees and other compensation charged by the investment option are no longer reasonable under the circumstances.

The Investment Consultant will notify the Service Providers of the Watch list status of their respective offerings quarterly.

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.

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 request a new recommended investment option, appropriate for the given asset class, from the applicable Service Provider. The Investment Consultant will review the investment recommendation from the Service Provider and advise on its compliance with this IPS. If practicable, when the Investment Consultant recommends the termination of an investment option to the Board, it should also present a vetted replacement investment option proposed by the Service Provider to the Board for approval, where appropriate.

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 based on current guidance and best practices;
- Transfer, or "map", the monies in the terminated investment to the Plan's default option;
- 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

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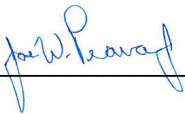
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- Close the investment option to future contributions but give participants in the fund the option to keep, or remove, the monies in the closed investment option.

**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: December 7, 2022.

By:  Title: Chairman

## Appendix

### *Investment Options and Benchmark Indices*

The benchmarks included in the table below are intended to represent general benchmarks suitable for evaluation of the Plan's available investment options. The prospectus benchmark of each investment option may differ from the benchmarks listed below. This difference is especially relevant for those investment options that utilize a custom benchmark. Additionally, the Investment Consultant may evaluate the investment options using peer universe benchmarking or other suitable evaluation methods in addition to or in lieu of the benchmarks shown below.

<u>Investment Options</u>	<u>Benchmarks</u>
<b><u>Low Risk Options</u></b>	
Stable Value Fund or Guaranteed Annuity	Hueler Stable Value, 90 Day T-Bills
Money Market Fund	90 Day T-Bills
Fixed Income Fund	Bloomberg US Aggregate
Inflation Protected Bonds	Bloomberg US TIPS, Bloomberg Barclays U.S. Govt Inflation-Linked Index
<b><u>Intermediate Risk Options</u></b>	
Large Cap US Equity	S&P 500, Russell 1000, Russell 1000 Growth, Russell 1000 Value, Russell 3000
Mid Cap US Equity	S&P Midcap 400, Russell Midcap, Russell Midcap Growth, Russell Midcap Value
Global Tactical or static Asset Allocation	CPI, 60/40 stock/bond
<b><u>Higher Risk Options</u></b>	
Small Cap US Equity	Russell 2000, Russell 2000 Growth, Russell 2000 Value, Russell 2500 Growth
Global Equity	MSCI ACWI
International Equity	MSCI ACWI ex US, MSCI EAFE, MSCI Emerging Markets, FTSE Global ex US
<b><u>Default Investment Option</u></b>	
Lifecycle Funds	Asset Weighted Composite Index, S&P Target Date Series