

**STATE OF SOUTH CAROLINA
DEFERRED COMPENSATION PROGRAM**

INVESTMENT POLICY STATEMENT

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INTRODUCTION

The Board of Directors of the South Carolina Public Employee Benefit Authority (“Board”) hereby adopts this amended Investment Policy Statement (“Statement”) 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.

OBJECTIVES OF THE PROGRAM

The Program is a long-term retirement savings vehicle and is intended as a source of retirement income for eligible participants. The investment options available cover a broad range of investment risk and rewards appropriate for this type of retirement savings program. Participants bear the risk and reap the rewards of investment returns that result from the investment options they select.

The Board is granted its authority to determine investments pursuant to S.C. Code Ann. Section 8-23-20 which provides that the Board “shall select, through competitive bidding and contracts, plans for purchase of fixed and variable annuities, savings, mutual funds, insurance and such other investments as the Board may approve which are not in conflict with the State Constitution and with the advice and approval of the State Treasurer.”

This Statement is designed:

- To ensure that a broad range of investment options are offered to Program participants;
- To establish an investment offering 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 Program;
- To establish investment objectives and guidelines for each investment category offered within the Program;
- To establish benchmarks and performance standards for each investment and to evaluate each option’s performance against appropriate benchmarks and standards;
- To establish a procedure for reporting and monitoring of the various investment options;
- To define the procedures for investment fund selection, evaluation and formal review; and
- To set guidelines and procedures for the freezing or terminating a core investment option, which in the Board’s opinion does not or will not fulfill the Program’s objectives for which it was selected, and, if necessary, replace the option with an appropriate substitute.

INVESTMENT OPTIONS

The Program consists of the below core investment options, as well as a Brokerage Link (i.e., self-directed brokerage option).

Core Investment Options

Stable Value Fund
Fixed Income
Inflation Protected Bonds
Large Cap Blend Equity (Passive)
Large Cap Value Equity
Large Cap Growth Equity
Mid Cap Value Equity
Mid Cap Growth Equity
Small Cap Blend Equity (Passive)
Small Cap Growth Equity
Small Cap Value Equity
Global Tactical Asset Allocation Fund
Lifecycle Funds (Passive)
Global Equity
Foreign Equity (2)

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 Retirement Committee of the South Carolina Public Employee Benefit Authority (“Committee”) assists 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.

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 passively take advantage of the diversification and asset allocation strategies that are in line with the date of retirement. 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.

Descriptions of the authorized investment categories are listed below:

Stable Value Fund

Objective

The objective of this investment category is to preserve principal and provide a stable, competitive rate of return. An option in this category invests in investment grade fixed income instruments, including those of

the US Government and its agencies, corporations, mortgage and asset-backed securities. This fund declares an annualized rate of interest at least semi-annually.

Performance Standards

- To exceed the return of the Hueier Stable Value Index.

Fixed Income

Objective

The objective of this investment category is to invest in income-producing securities, including corporate and US Government bonds, preferred stocks, income-producing common stocks, convertibles, and foreign securities. Investment returns are expected to be derived primarily from current income.

Performance Standards

- To exceed the return of the Barclays Capital Aggregate Bond Index over a full market cycle, or generally a period of 3 to 5 years.
- To exceed the median return of the fixed income bond fund universe over a full market cycle.
- Risk, as measured by the standard deviation of quarterly returns, shall be consistent with that of the Barclays Capital Aggregate Bond Index.

Inflation Protected Bonds

Objective

The objective of this investment category is to maximize real return, consistent with preservation of real capital and prudent investment management. The fund invests at least 80% of assets in inflation-indexed bonds of varying maturities issued by the U.S. and non-U.S. governments, their agencies or instrumentalities, and U.S. and non-U.S. corporations. It may also invest up to 20% of assets in non-dollar denominated securities of non-U.S. issuers, and may invest without limit in U.S. dollar denominated securities of non-U.S. issuers.

Performance Standards

- To exceed the return of the Barclays Capital US TIPS Index over a full market cycle, or generally a period of 3 to 5 years.
- To exceed the median return of the US TIPS universe over a full market cycle.
- Risk, as measured by the standard deviation of quarterly returns, shall be consistent with that of the Barclays US Tips Index.

Large Cap Blend Equity (Passive)

Objective

The objective of this investment category is to track the performance of the Standard & Poor's 500 Index by investing in common stock of the large capitalization domestic companies comprising the Index. The S&P 500 Index is an equity composite of the 500 largest companies in the United States based on market capitalization. The fund manager's target is to match the index rather than attempting to outperform the index. Investment returns are expected to be derived primarily from capital appreciation and, to a lesser

degree, dividend income. The market capitalization range for this investment category will be in line with the capitalization classification determined by mutual fund databases, such as Morningstar or Lipper.

Performance Standards

- To closely replicate the characteristics and performance of the S&P 500 Index over a full market cycle, or generally a period of 3 to 5 years.
- Risk, as measured by the standard deviation of quarterly returns, shall be in line with the S&P 500 Index.

Large Cap Value Equity

Objective

The objective of this investment category is to invest primarily in the common stock of large capitalization domestic companies considered by the fund manager to be undervalued relative to the market. Investment returns are expected to be derived primarily from capital appreciation and, to a lesser degree, dividend income. The market capitalization range for this investment category will be in line with the capitalization classification determined by mutual fund databases, such as Morningstar and Lipper.

Performance Standards

- To exceed the return of the Russell 1000 Value Index over a full market cycle, or generally a period of 3 to 5 years.
- To exceed the median return of the large cap value equity fund universe over a full market cycle.
- Risk, as measured by the standard deviation of quarterly returns, shall be consistent with that of the Russell 1000 Value Index.

Large Cap Growth Equity

Objective

The objective of this investment category is to invest primarily in the common stock of large capitalization domestic companies considered by the fund manager to have above average potential for capital appreciation. Investment returns are expected to be derived primarily from capital appreciation. The market capitalization range for this investment category will be in line with the capitalization classification determined by mutual fund databases, such as Morningstar and Lipper.

Performance Standards

- To exceed the return of the Russell 1000 Growth Index over a full market cycle, or generally a period of 3 to 5 years.
- To exceed the median return of the large cap growth equity fund universe over a full market cycle.
- Risk, as measured by the standard deviation of quarterly returns, shall be consistent with that of the Russell 1000 Growth Index.

Mid Cap Value Equity

Objective

The objective of this investment category is to invest in the common stock of medium capitalization domestic companies considered by the fund manager to be undervalued relative to the market. Investment returns are expected to be derived primarily from capital appreciation and, to a lesser degree, dividend income. The market capitalization range for this investment category will be in line with the capitalization classification determined by mutual fund databases, such as Morningstar and Lipper.

Performance Standards

- To exceed the return of the Russell Mid Cap Value Index over a full market cycle, or generally a period of 3 to 5 years.
- To exceed the median return of the mid cap value equity fund universe over a full market cycle.
- Risk, as measured by the standard deviation of quarterly returns, shall be consistent with that of the Russell Mid Cap Value Index.

Mid Cap Growth Equity

Objective

The objective of this investment category is to invest in the common stock of medium capitalization domestic companies considered by the fund manager to have above average potential for capital appreciation. Investment returns are expected to be derived primarily from capital appreciation. The market capitalization range for this investment category will be in line with the capitalization classification determined by mutual fund databases, such as Morningstar and Lipper.

Performance Standards

- To exceed the return of the Russell Mid Cap Growth Index over a full market cycle, or generally a period of 3 to 5 years.
- To exceed the median return of the mid cap growth equity fund universe over a full market cycle.
- Risk, as measured by the standard deviation of quarterly returns, shall be consistent with that of the Russell Mid Cap Growth Index.

Small Cap Blend Equity (Passive)

Objective

The objective of this investment category is to track the performance of the Russell 2000 Index by investing in common stock of the small capitalization domestic companies comprising the Index. The Russell 2000 Index is a small-cap stock market index of the bottom 2,000 stocks in the Russell 3000 Index based on market capitalization. The fund manager's target is to match the index rather than attempting to outperform the index. Investment returns are expected to be derived primarily from capital appreciation and, to a lesser degree, dividend income. The market capitalization range for this investment category will be in line with the capitalization classification determined by mutual fund databases, such as Morningstar or Lipper.

Performance Standards

- To closely replicate the characteristics and performance of the Russell 2000 Index over a full market cycle, or generally a period of 3 to 5 years.
- Risk, as measured by the standard deviation of quarterly returns, shall be in line with the Russell 2000 Index.

Small Cap Growth Equity

Objective

The objective of this investment category is to invest in the common stock of small capitalization domestic companies considered by the fund manager to have above average potential for capital appreciation. Investment returns are expected to be derived primarily from capital appreciation. The market capitalization range for this investment category will be in line with the capitalization classification determined by mutual fund databases, such as Morningstar and Lipper.

Performance Standards

- To exceed the return of the Russell 2000 Growth Index over a full market cycle, or generally a period of 3 to 5 years.
- To exceed the median return of the small cap growth equity fund universe over a full market cycle.
- Risk, as measured by the standard deviation of quarterly returns, shall be consistent with that of the Russell Small Cap Growth Index.

Small Cap Value Equity

Objective

The objective of this investment category is to invest in the common stock of small capitalization domestic companies considered by the fund manager to be undervalued relative to the market. Investment returns are expected to be derived primarily from capital appreciation and, to a lesser degree, dividend income. The market capitalization range for this investment category will be in line with the capitalization classification determined by mutual fund databases, such as Morningstar and Lipper.

Performance Standards

- To exceed the return of the Russell 2000 Value Index over a full market cycle, or generally a period of 3 to 5 years.
- To exceed the median return of the small cap value equity fund universe over a full market cycle.
- Risk, as measured by the standard deviation of quarterly returns, shall be consistent with that of the Russell 2000 Value Index.

Global Tactical Asset Allocation Fund

Objective

The objective of this fund is to invest based upon perceived long-term market trends and exploiting short-term market inefficiencies by establishing positions in relatively attractive areas of the global investable universe. Investment styles can include Fixed Income Replacements, Equity Replacements, Blend (mix of

Fixed Income and Equity), and Completion (inclusion of alternative asset classes, inflationary assets, etc). Managers aim to provide asset diversification and downside protection through a tactical, multi-asset portfolio approach, and may invest across equities, fixed-income, commodities, currencies, and real estate. Investment returns are expected to be derived from current income and capital appreciation. These funds will invest in a group of underlying securities (i.e. mutual funds, ETFs, etc.) to achieve the desired asset allocation.

Performance Standards

- To exceed the return of the Primary Policy Index of CPI + 5% over a full market cycle, or generally a period of 3 to 5 years. To exceed the return of the Secondary Policy Index of 60% MSCI World Index and 40% Citigroup WGBI Index over a full market cycle, or generally a period of 3 to 5 years.

Lifecycle Funds (Passive)

Objective

The objective of this investment category is to invest in a diversified portfolio of holdings that are systematically rebalanced during the various market cycles or stages of an investor's lifetime. These Lifecycle Funds (also known as Target Date Funds) establish a targeted "maturity date" and will automatically reallocate the investments over time from a more aggressive to a more conservative allocation. The funds are designed for the participant to select the fund that has its "maturity date" set similarly to his or her own investment horizon, often the participant's retirement age. The underlying mutual fund investments that comprise each Lifecycle Fund will be passively managed by the investment manager. The dynamic asset allocation applied to each passively managed fund option will be determined and rebalanced, accordingly, by the investment manager.

Performance Standards

- To closely replicate the return of a composite index (net of expenses) over a full market cycle, or generally a period of 3 to 5 years.
- To replicate the median return of mixed asset target universe over a full market cycle.

Global Equity

Objective

The objective of this investment category is to invest primarily in the common stock of companies located around the world. Investment returns are expected to be derived primarily from capital appreciation.

Performance Standards

- To exceed the return of the MSCI All Country World Index (net of dividends) over a full market cycle, or generally a period of 3 to 5 years.
- To exceed the median return of the global equity fund universe over a full market cycle.
- Risk, as measured by the standard deviation of quarterly returns, shall be consistent with that of the MSCI All Country World Index (net of dividends).

Foreign Equity

Objective

The objective of this investment category is to invest primarily in the common stock of companies located outside the United States. Investment returns are expected to be derived primarily from capital appreciation.

Performance Standards

- To exceed the return of the MSCI EAFE Index (net of dividends) over a full market cycle, or generally a period of 3 to 5 years.
- To exceed the median return of the international equity fund universe over a full market cycle.
- Risk, as measured by the standard deviation of quarterly returns, shall be consistent with that of the MSCI EAFE Index (net of dividends).

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.

CORE INVESTMENT OPTION EVALUATION

The Board will review and evaluate each core investment option for performance criteria at least quarterly. The below criteria pertain to all core investment options except the Stable Value Fund, the Global Tactical Asset Allocation Fund, the Lifecycle Funds, and passive funds, which are evaluated using different criteria:

- **Performance => Benchmark:** To equal or exceed the return of the specified benchmark 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 the Lipper peer universe over a full market cycle, or generally a period of 3 to 5 years.
- **Risk Adjusted Performance => Benchmark:** To equal or exceed the Sharpe Ratio of the specified benchmark over a full market cycle, or generally a period of 3 to 5 years.
- **Morningstar Rating => 3 Stars:** If applicable, to equal or exceed a three star rating as determined by the Morningstar overall rating.
- **Consistency of Style => 4 of 6 quarters:** A similar classification consistent with the investment category outlined in the Statement as identified by Lipper/Morningstar Category system for at least 4 of the most recent 6 quarters.

Overall Pass/Fail: The investment option is measured against the 8 criteria listed above. At the end of each quarter, each investment option must meet or exceed 5 of the 8 or 62.5% of the criteria in order to receive pass status. If less than 5 criteria are met or exceeded, the investment option will receive a fail status. An investment option that fails the criteria for four (4) consecutive quarters will result in a formal review by the Investment Committee and/or Commission.

In addition to the criteria detailed above, the Board retains the authority to place any investment option under or remove any investment option from formal review at its discretion.

FORMAL REVIEW

When an investment option has been placed under formal review, the Committee and/or the Board, with assistance from its Investment Consultant, shall conduct an evaluation of the investment option, its operations, and its performance. During the formal review, the following criteria will be considered:

- Solidity of the organization;
- Stability of the investment management team;
- Consistency of the philosophy and process;
- Size of the fund with regard to participant assets; and
- Availability of suitable substitute funds.

While the option is under the formal review process, the Board may choose to close the option to new contributions. Upon completion of the formal review and depending upon the outcome of the five characteristics listed above as well as the performance criteria listed under the Core Investment Option Evaluation section, the Board may:

- Continue the option under formal review status while continuing to monitor the performance criteria listed under the Investment Option Evaluation section above,
- Close the option to new contributions (freeze), or
- Terminate the option.

CLOSING A FUND TO NEW CONTRIBUTIONS

When the Board closes a fund to new contributions:

1. The Board may close a fund to new contributions depending upon the outcome of a formal review as outlined above. The Board may leave the existing assets in the fund; however, the status of frozen funds will be reviewed annually, at a minimum, to determine if the fund should remain in the Program as frozen, re-open to new contributions, or be terminated and assets mapped to a similar core investment option.
2. The Board will direct the Program's record keeper to freeze the fund. As of the effective date, new plan participants will not be able to select the fund, nor will existing plan participants be allowed to add money to the fund.

3. The record keeper will notify the Program's participants who are currently investing in the fund that:
 - a. As of the effective date, new plan participants will not be able to select the fund, nor will existing plan participants be allowed to add money to the prior fund.
 - b. Notification will be provided by publishing in the quarterly newsletter and posting on the Program's record keeper website.

FUND TERMINATION

When the Board terminates a fund:

1. The Board will authorize the Committee to begin the process of seeking a new fund appropriate for a given asset class. The formal search will be conducted by the Investment Consultant in compliance with the New Fund Selection Procedure. The Committee, in conjunction with the Investment Consultant, will present the Board with a replacement recommendation, and the Board will select the replacement fund.
2. The Board will notify the Program's record keeper once a replacement fund is selected, and direct the provider to terminate the fund. As of the effective date, new plan participants will not be able to select the fund, nor will existing plan participants be allowed to add money to the fund.
3. The record keeper will notify the Program's participants who are currently investing in the fund that:
 - a. As of the effective date, new plan participants will not be able to select the fund, nor will existing plan participants be allowed to add money to the prior fund.
 - b. Participants having assets in the terminated fund may leave them in the fund until the "sunset" date, usually a date up to nine months after the effective date. The sunset date is the date that assets existing in the terminated fund will be mapped to an appropriate alternative investment selected by the Board.
 - c. Notification will be provided by publishing in the quarterly newsletter and posting on the Program's record keeper website.
4. Assets not transferred by participants from the terminated fund to an alternate investment fund by the "sunset" date will be automatically transferred to a replacement fund or a designated default fund option.

NEW FUND SELECTION PROCEDURE

The criteria below will be utilized in the selection of a new core investment option.

- Initial selection of a fund will require that the fund shall have a three year return performance record in line with or above the median return of its respective peer group.
- Funds selected shall have been managed by the same person(s) or substantially the same group for at least the last four years.

- A minimum of three years of operation and history are required to be considered for selection. An institutional fund that has not acquired three years of operations can be assigned the years of operations and history of its retail copy, provided the fund has the same management and investment objectives.
- Funds with front and/or back end load fees that are paid by the participants will not be considered.
- The annualized rate of return for the most recent 3 and 5 year time periods must meet or exceed the relative market index (benchmark).
- Retail mutual funds must have a Morningstar Category Rating of at least three stars (above average).
- Review of prospectus and relevant fund and organizational information.

When the Board has selected a new fund, it will be submitted to the State Treasurer's Office for advice and approval as outlined in S.C. Code Ann. Section 8-23-20.

REVIEW OF CORE INVESTMENT OPTIONS

At least annually, the Committee, in conjunction with the Investment Consultant, will review the level of diversification between the core investment options and the investment categories. The Board may choose to add, change, or delete investment options as a result of this analysis.

CHANGES TO INVESTMENT POLICY

From time-to-time, the Board, in its discretion, may add, change or delete sections of this Statement. At such time, this Statement will be modified to include those changes.

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The Board of Directors of the South Carolina Public Employee Benefit Authority approves this Statement effective January 1, 2015.



 Arthur M. Bjontegard, Jr.
 Chairman