



**THE HONORABLE CURTIS M. LOFTIS, JR.**  
State Treasurer

April 20, 2012

The Honorable Michael Fair  
Co-Chairman, Senate Finance Constitutional & Criminal Justice Subcommittee  
211 Gressette Building  
Columbia, South Carolina

The Honorable David Thomas  
Co-Chairman, Senate Finance Constitutional & Criminal Justice Subcommittee  
410 Gressette Building  
Columbia, South Carolina

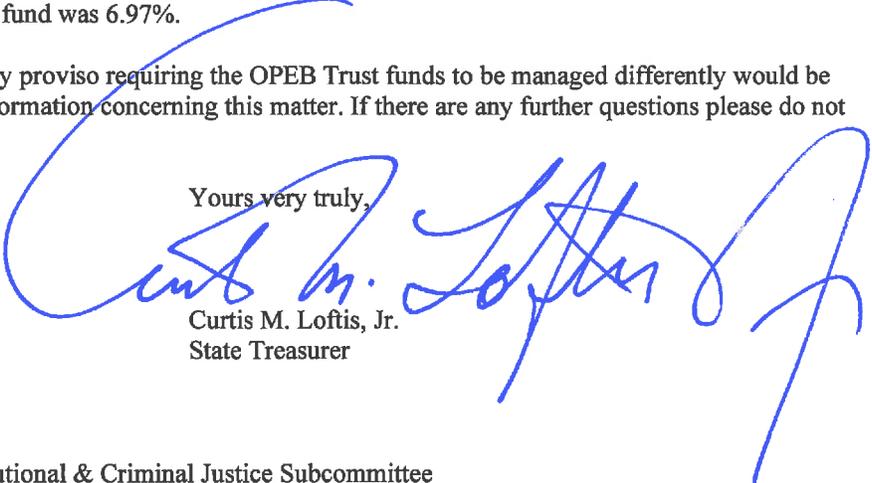
Dear Senators Fair and Thomas:

Questions were raised about the performance of the OPEB Trust funds, and I would like to present accurate information so as to bring clarity to this conversation.

1. Please find enclosed a letter dated November 15, 2011 to Senator Ryberg detailing an answer to these very questions.
2. The OPEB Trust fund is prohibited by law from investing in many financial instruments available to other investment portfolios managed by various entities of the state.
3. A constitutional referendum was offered to the people of SC in 2009 and the measure failed. Until such time as that measure passes, these investment prohibitions will remain in place.
4. The comparison referenced in the Senate Committee of the OPEB Trust investment returns and the Core Fixed income returns of the Investment Commission is inaccurate because of the "apples and oranges" nature of the investment options allowed.
5. The Retirement System Investment Commission's most recent flash report (as of 2/29/12) shows a 5 year annualized return of 6.36% (Exhibit 1) for the Core Fixed Income asset class, the class most comparable to the STO investments. The RSIC's Core Fixed Income may make types of investments not available to the STO.
6. The STOs advisor reports (as of 2/29/12) in Exhibits 2 and 3 show that the 5 year annualized return for the OPEB Health Insurance trust fund was 6.75%, and the 5 year annualized return for the OPEB Life and Long Term Disability trust fund was 6.97%.

For these reasons we believe any proviso requiring the OPEB Trust funds to be managed differently would be unwise. Please find attached the information concerning this matter. If there are any further questions please do not hesitate to call me.

Yours very truly,

  
Curtis M. Loftis, Jr.  
State Treasurer

CMLjr/afw  
Enclosures

Cc: Members, Finance Constitutional & Criminal Justice Subcommittee  
The Honorable Hugh Leatherman, Senate Finance Committee Chairman



THE HONORABLE CURTIS M. LOFTIS, JR.  
State Treasurer

November 15, 2011

The Honorable W. Greg Ryberg  
Chairman, Senate Labor, Commerce and Industry Committee  
313 Gressette Senate Office Building  
P O Box 142  
Columbia, SC 29202

Dear Chairman Ryberg:

Thank you for your letter of November 7, 2011. The Office of State Treasurer does manage the OPEB funds, which are invested primarily in domestic Fixed Income securities in accordance with S.C. Code Section 11-9-660. You may recall that the constitutional referendum that would have permitted investment in broader asset types failed in 2009. However, the portfolios are structured to promote transitional efficiency in the event that a constitutional amendment is approved that would permit investment in broader asset types. If that occurs, it is presently contemplated that funds management will be transferred at that time to the Retirement Systems Investment Commission.

We have attached charts reflecting historic data that we trust will be responsive to several of the questions raised in your letter. The assumed rate of return was established by the Actuary for the OPEB Funds at 5.5%, based exclusively on present constitutional requirements to invest in fixed income securities.

The Office of State Treasurer does not charge any fee for managing these investment portfolios. On a fiscal year basis (every June 30<sup>th</sup>), the Employee Insurance Program transfers from the Trust the Implicit Subsidy amount, which includes all direct Trust expenses pertaining to claims, third party administration, external audit, and actuarial fees.

Please let me know if there is any additional information you need.

Sincerely,

A handwritten signature in black ink that reads "Curtis M. Loftis, Jr." with a large, stylized flourish at the end.

Curtis M. Loftis, Jr.



## Investment of OPEB Funds

The State Treasurer wishes to provide the following information with respect to statements made at the Senate Finance Subcommittee meeting on April 19, 2012.

Optional Post Employment Benefits (“OPEB”) funds consist of 2 funds: 1) a health insurance trust fund and 2) a life and long term disability trust fund. Both funds are managed and invested by the State Treasurer’s Office (“STO”) and investments in the 2 funds may have maturities up to 30 years.

Currently, the OPEB life and long term disability trust fund totals \$35.3 million in market value, and the OPEB health insurance trust fund totals \$582.4 million in market value. The unfunded liability for the health insurance trust fund is \$9.145 billion as of June 30, 2010. The Budget and Control Board does not have June 2011 numbers available.

**The Retirement System Investment Commission’s most recent flash report (as of 2/29/12) shows a 5 year annualized return of 6.36% (Exhibit 1) for the Core Fixed Income asset class, the class most comparable to the STO investments. The RSIC’s Core Fixed Income may make types of investments not available to the STO.**

**The STOs advisor reports (as of 2/29/12) in Exhibits 2 and 3 show that the 5 year annualized return for the OPEB Health Insurance trust fund was 6.75%, and the 5 year annualized return for the OPEB Life and Long Term Disability trust fund was 6.97%.**

5 year periods are more representative of a full market cycle than a 1 or 2 year period.

**ALL** funds invested and managed by the STO must comply with Section 11-9-660 of the South Carolina State Code of Laws (Exhibit 4), which restricts investments to domestic, investment grade fixed income, whereas the Retirement System Investment Commission (“RSIC”) fixed income funds can be invested in more diversified investments including high yield securities, non-dollar denominated securities, and foreign emerging market debt.

Exhibit 1 is the RSIC's most recent flash report (2/29/12), which shows the Fixed Income portfolio breakdown. The Core Fixed Income sub-category is the most comparable to the STO investment portfolios. Exhibit 1 also illustrates the wide diversity of investment options the RSIC has available, unlike the STO (see Exhibit 4). The RSIC's investment horizon is generally 30 years, much longer than the STO investment horizon. Some of the RSIC's Core Fixed Income portfolio may be, and is **in fact**, invested in high yield securities, non-dollar denominated securities, and foreign emerging market debt.

Exhibits 2 and 3 are the 2/29/12 reports from the STO's investment advisor regarding the portfolios in the 2 OPEB funds. The reports show **all** STO investments to be in fixed income and cash equivalents.

At the time the Retirement System Investment Commission was established, the Chief Investment Officer of the Investment Commission wished to have responsibility for investing and managing OPEB funds, but declined when made aware of the restrictive investment limitations imposed by Section 11-9-660. Subsequently, a Constitutional amendment to liberalize the OPEB investment possibilities and options, similar to those available to the RSIC failed to be adopted.

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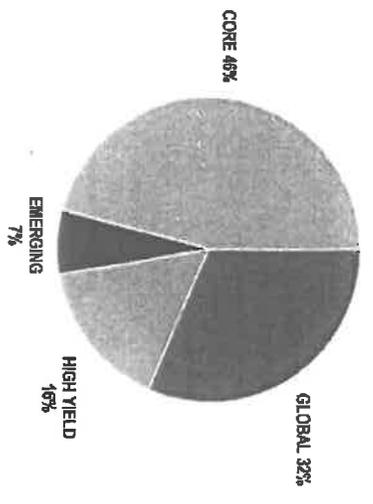


Exhibit 1

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Fixed Income	MMT Val (mm)	Target %	Actual %	Variance	Month	3 Month	FYTD	YTD	1 Year	2 Years	3 Years	5 Years
<b>TOTAL PHYSICAL FIXED INCOME</b>	<b>\$ 4,885.0</b>		<b>18.9%</b>		<b>0.93%</b>	<b>1.39%</b>	<b>3.91%</b>	<b>3.32%</b>	<b>8.79%</b>	<b>7.94%</b>	<b>12.67%</b>	<b>7.51%</b>
<b>CORE FIXED INCOME</b>	<b>2,239.8</b>	<b>10.0%</b>	<b>8.7%</b>	<b>-1.3%</b>	<b>0.76%</b>	<b>2.86%</b>	<b>5.87%</b>	<b>1.39%</b>	<b>6.46%</b>	<b>7.35%</b>	<b>2.93%</b>	<b>6.36%</b>
Internal Fixed Income	384.1		0.7%	-0.30%	0.50%	0.46%	2.45%	-0.46%	4.78%	4.40%	5.62%	4.18%
PIMCO Fixed Income	997.3		3.9%	0.5%	3.43%	5.23%	7.05%	7.05%	9.11%	7.84%		
Blackrock Fixed Income	882.1		3.9%	0.0%	0.05%	6.89%	6.89%	1.06%	8.31%	6.88%		
Jamison, Eaton & Wood	206.3		0.8%	0.42%	2.64%	5.58%	1.37%	1.37%	7.81%	6.23%		
<b>BARCLAYS CAPITAL U.S. AGGREGATE</b>				<b>-0.02%</b>	<b>1.96%</b>	<b>5.89%</b>	<b>0.89%</b>	<b>0.89%</b>	<b>8.37%</b>	<b>6.64%</b>	<b>7.52%</b>	<b>6.36%</b>
<b>NON-CORE FIXED INCOME</b>	<b>2,645.1</b>	<b>3.0%</b>	<b>10.2%</b>	<b>7.2%</b>	<b>1.39%</b>	<b>3.83%</b>	<b>1.98%</b>	<b>4.88%</b>	<b>5.43%</b>	<b>9.17%</b>	<b>17.25%</b>	<b>8.69%</b>
GLOBAL FIXED INCOME	1,542.8	3.0%	6.0%	3.0%	0.55%	5.28%	2.37%	4.38%	5.84%	7.77%	48.10%	23.18%
Loomis Sayles	492.1		1.9%	2.57%	9.50%	4.18%	7.89%	7.89%	11.53%	7.40%	22.84%	12.42%
Moridian	632.4		2.4%	-0.45%	1.93%	1.78%	2.08%	2.08%	6.39%	7.40%	12.84%	10.54%
Western Asset	418.3		1.6%	1.28%	5.89%	3.89%	4.53%	4.53%	6.38%	8.52%	18.95%	8.07%
<b>BARCLAYS CAPITAL GLOBAL AGGREGATE</b>				<b>-0.07%</b>	<b>2.29%</b>	<b>2.83%</b>	<b>1.80%</b>	<b>1.80%</b>	<b>6.82%</b>	<b>6.16%</b>	<b>8.07%</b>	<b>6.58%</b>
<b>HIGH YIELD FIXED INCOME</b>	<b>772.1</b>	<b>3.0%</b>	<b>3.0%</b>	<b>0.0%</b>	<b>2.15%</b>	<b>6.32%</b>	<b>-0.47%</b>	<b>4.91%</b>	<b>1.23%</b>	<b>9.33%</b>	<b>21.58%</b>	<b>8.15%</b>
Loomis Sayles NHIT	164.4		0.8%	3.06%	11.38%	0.33%	9.46%	9.46%	2.84%	10.35%	22.45%	
Penn Capital	83.3		0.3%	2.16%	7.80%	3.02%	5.43%	4.39%	4.39%	12.42%		
TCW - High Yield	52.7		0.2%	2.10%	6.83%	3.04%	4.70%	4.70%	3.81%	10.54%		
Post Advisors	128.8		0.5%	2.35%	7.19%	2.63%	4.48%	4.48%	4.53%			
GSO - High Yield	342.9		1.3%	2.37%	8.29%	5.49%	5.49%	5.49%	6.94%	12.10%	25.23%	8.15%
<b>BARCLAYS CAPITAL U.S. HIGH YIELD</b>				<b>-1.7%</b>	<b>2.71%</b>	<b>7.36%</b>	<b>1.35%</b>	<b>7.02%</b>	<b>8.21%</b>	<b>9.82%</b>	<b>17.54%</b>	<b>8.40%</b>
Capital Guardian	330.2		1.3%	2.71%	7.36%	1.35%	7.02%	7.02%	8.21%	9.82%	17.54%	8.40%
<b>JPMORGAN EMER GLOBAL DIVERSIFIED</b>				<b>1.3%</b>	<b>2.40%</b>	<b>5.19%</b>	<b>6.58%</b>	<b>4.02%</b>	<b>12.02%</b>	<b>10.98%</b>	<b>17.54%</b>	<b>8.40%</b>
<b>TOTAL FIXED INCOME EXPOSURE</b>	<b>\$ 4,885.0</b>	<b>18.0%</b>	<b>18.9%</b>	<b>-0.1%</b>								

Fixed Income Breakdown



FYTD Value Added Versus Benchmark



**SC RHI TRUST FUND**  
February 29, 2012

*Erin 2/29*

**PORTFOLIO COMPOSITION**

**CHANGE IN PORTFOLIO**

	Market Value	Pct. Assets	Yield			
Domestic Equities	0.00	0.0	0.0	Portfolio Value on 01-31-12		573,598,137.77
Internat'l Equities	0.00	0.0	0.0	Accrued Interest		4,628,847.63
Style Equities	0.00	0.0	0.0	Net Additions/Withdrawals		4,783,092.17
Alt. Investments	0.00	0.0	0.0	Realized Gains		-115,452.23
Fixed Income	431,081,163.75	74.0	2.6	Unrealized Gains		-1,931,877.11
Cash Equivalents	151,400,000.00	26.0	0.1	Income Received		1,265,516.87
				Change in Accrued Interest		252,898.66
				Portfolio Value on 02-29-12		577,599,417.47
				Accrued Interest		4,881,746.29
<b>Total</b>	<b>582,481,163.76</b>	<b>100.0</b>	<b>2.0</b>			<b>582,481,163.76</b>

**TIME WEIGHTED RETURN**

	Month To Date	Fiscal Qtr. To Date	Fiscal Year To Date	Last 12 Months	Annualized Since 05-31-08
Account	-0.09	0.80	3.63	5.66	6.75
Fixed Income	-0.13	0.83	3.88	6.27	7.65
Barclays Agg	-0.02	0.85	5.88	8.37	6.73
Cash Equivalents	0.01	0.02	0.04	0.07	0.30
T-Bills	0.00	0.00	0.01	0.05	0.32

**SCITDI TRUST FUND**  
February 29, 2012

*Exhibit B*

**PORTFOLIO COMPOSITION**

**CHANGE IN PORTFOLIO**

	Market Value	Pct. Assets	Yield		
Domestic Equities	0.00	0.0	0.0	Portfolio Value on 01-31-12	34,966,681.81
Internat'l Equities	0.00	0.0	0.0	Accrued Interest	396,447.79
Style Equities	0.00	0.0	0.0	Net Additions/Withdrawals	-95,734.98
Alt. Investments	0.00	0.0	0.0	Realized Gains	-11,700.32
Fixed Income	32,468,709.13	92.0	3.0	Unrealized Gains	-68,282.88
Cash Equivalents	2,834,554.68	8.0	0.1	Income Received	145,342.49
				Change in Accrued Interest	-29,490.11
				Portfolio Value on 02-29-12	34,936,306.12
				Accrued Interest	366,957.69
<b>Total</b>	<b>35,303,263.81</b>	<b>100.0</b>	<b>2.8</b>		<b>35,303,263.81</b>

**TIME WEIGHTED RETURN**

	Month To Date	Fiscal Qtr. To Date	Fiscal Year To Date	Last 12 Months	Annualized Since 05-31-08
Account	0.10	1.14	4.64	6.92	6.97
Fixed Income	0.11	1.22	5.13	7.76	7.95
Barclays Agg	-0.02	0.85	5.88	8.37	6.73
Cash Equivalents	0.01	0.02	0.05	0.07	0.35
T-Bills	0.00	0.00	0.01	0.05	0.32

Exhibit 4

**SECTION 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.

**HISTORY:** 1962 Code Section 1-797; 1952 Code Sections 1-796, 1-797; 1942 Code Sections 2140, 2141; 1932 Code Sections 2132, 2140, 2141; Civ. C. '22 Sections 93, 101, 102; Civ. C. '12 Sections 88, 96, 97; Civ. C. '02 Sections 84, 92, 93; G. S. 57, 64; R. S. 78, 86; 1870 (14) 388; 1884 (18) 864; 1896 (22) 184; 1950 (46) 3605; 1959 (51) 126; 1972 (57) 2584; 1973 (58) 335; 1990 Act No. 314, Section 2; 1993 Act No. 164, Part II, Section 66A; 2001 Act No. 28, Section 1.