Combined Financial Statements

State of South Carolina
Deferred Compensation Program

Year ended December 31, 2022

Administered by the
South Carolina Public
Employee Benefit Authority
Columbia, South Carolina

Contents

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

The Honorable Henry D. McMaster, Governor,
Mr. George L. Kennedy, CPA, State Auditor,
And Board of Directors
South Carolina Public Employee Benefit Authority
Columbia, South Carolina

Report on the Audit of the Financial Statements

Opinion

We have audited the combined financial statements of fiduciary net position and changes in fiduciary net position of the State of South Carolina Deferred Compensation Program (the "Program"), as of and for the year ended December 31, 2022, and the related notes to the combined financial statements, which collectively comprise the Program's basic combined financial statements as listed in the table of contents.

In our opinion, the accompanying combined financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Program, as of December 31, 2022, and the changes in fiduciary position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Program, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Program's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Program's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-5 be presented to supplement the basic combined financial statements. Such information is the responsibility of management and, although not a part of the basic combined financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic combined financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic combined financial statements, and other knowledge we obtained during our audit of the basic combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated July 28, 2023 on our consideration of the Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Program's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control over financial reporting and compliance.

Crowe LLP

Crowe LLP

Dallas, Texas
July 28, 2023

This section presents management's discussion and analysis of the financial position and performance of the State of South Carolina Deferred Compensation Program (Deferred Comp) and is intended to provide an overview of Deferred Comp's financial activities as of and for the years ended December 31, 2022 and 2021. It is intended to be a narrative supplement to Deferred Comp's financial statements.

Deferred Comp's financial statements provide information about the activities of the two defined contribution plans administered, which are listed below.

- State of South Carolina 457 Deferred Compensation Plan and Trust (457 plan); and
- State of South Carolina Salary Deferral [401(k)] and Savings Profit Sharing Plan and Trust (401(k) plan).

Overview of the Financial Statements

Because of the long-term nature of a deferred compensation program, financial statements alone cannot provide sufficient information to properly reflect Deferred Comp's ongoing plan perspective. This financial report consists of two financial statements and the notes to the financial statements.

The *Combined Statement of Fiduciary Net Position* reports Deferred Comp's assets, liabilities and resulting net position where Assets - Liabilities = Fiduciary Net Position Held in Trust at the end of the year. It can be thought of as a snapshot of the financial position of Deferred Comp at a specific point in time.

The *Combined Statement of Changes in Fiduciary Net Position* reports Deferred Comp's transactions that occurred during the year where Additions - Deductions = Change in Fiduciary Net Position. It can be thought of as a recording of events that occurred over the specified time period of a year and supports the changes that have occurred to the prior year's fiduciary net position value on the Combined Statement of Fiduciary Net Position.

The *Notes to the Combined Financial Statements* are an integral part of the financial statements and include additional information not readily evident in the statements themselves.

Plan Highlights

The following highlights occurred during the year ended December 31, 2022:

- While there was a decline in 401(k) plan participation during the year, from 75,966 participants on December 31, 2021, to 74,181 at December 31, 2022, the 457 plan saw a slight growth in participation from 24,004 participants on December 31, 2021, to 24,255 at December 31, 2022.
- Fiduciary net position held in trust dropped by $929.4 million, or 16.15 percent, during 2022. This was compared to a rise of $495.7 million, or 9.42 percent, in 2021. Both plans experienced significant losses in the value of plan investments, and this, coupled with an increase in accounts payable for unclaimed distributions being held in trust, was the primary reason for the decline.
- The plans experienced an overall net investment loss of $766.6 million in 2022 compared to net investment income of $668.4 million in 2021. The decrease in investment earnings of approximately $1.4 billion from 2021 to 2022 was largely the result of substantial market losses during the year.
- Distributions were lower by just over $14 million, or 3.73 percent, in 2022 than in 2021. This very slight reduction was predominantly related to lower in-service, severance of employment, and qualified domestic relations order (QDRO) withdrawals.
- Administrative expenses and fees remained virtually the same in 2022 as they were in 2021, with a slight drop of $171,747, largely due to a decrease in participants balances upon which the administrative fee is assessed and the correlated reduction in revenue sharing.

State of South Carolina Deferred Compensation Program

Management's Discussion and Analysis (unaudited)
As of and for the year ended December 31, 2022

Summary comparative statements

Fiduciary Net Position	December 31, 2022	December 31, 2021	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Assets				
Fixed income investments	$ 1,356,881,550	$ 1,370,542,221	$ (13,660,671)	(1.00)%
Variable earning investments	3,440,638,134	4,356,655,122	(916,016,988)	(21.03)%
Receivables	30,211,301	29,827,964	383,337	1.29 %
Total assets	4,827,730,985	5,757,025,307	(929,294,322)	(16.14)%
Liabilities				
Accounts payable	1,408,315	1,312,436	95,879	7.31 %
Total liabilities	1,408,315	1,312,436	95,879	7.31 %
Fiduciary Net Position Held in Trust, end of year	$ 4,826,322,670	$ 5,755,712,871	$ (929,390,201)	(16.15)%

Changes in Fiduciary Net Position	For the years ended December 31, 2022	For the years ended December 31, 2021	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Additions				
Net investment income (loss)	$ (766,635,880)	$ 668,442,339	$ (1,435,078,219)	(214.69)%
Contributions	204,466,893	208,502,499	(4,035,606)	(1.94)%
Miscellaneous income	1,142,626	1,334,941	(192,315)	(14.41)%
Total additions	(561,026,361)	878,279,779	(1,439,306,140)	(163.88)%
Deductions				
Distributions	361,315,865	375,323,123	(14,007,258)	(3.73)%
Administrative expenses and fees	7,047,975	7,219,722	(171,747)	(2.38)%
Total deductions	368,363,840	382,542,845	(14,179,005)	(3.71)%
Change in Fiduciary Net Position	(929,390,201)	495,736,934	(1,425,127,135)	(287.48)%
Fiduciary Net Position Held in Trust,				
Beginning of year	5,755,712,871	5,259,975,937	495,736,934	9.42 %
End of year	$ 4,826,322,670	$ 5,755,712,871	$ (929,390,201)	(16.15)%

Requests for Information

This financial report is designed to provide a general overview of the South Carolina Deferred Compensation Program. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the South Carolina Public Employee Benefit Authority, 202 Arbor Lake Drive, Columbia, SC 29223. Inquiries may also be made at www.peba.sc.gov or by calling 888.260.9430.

State of South Carolina Deferred Compensation Program

Combined Statement of Fiduciary Net Position

December 31, 2022

	457 Plan	401(k) Plan	Total
Assets			
Fixed income investments			
Stable value fund	$ 302,779,838	$ 1,054,101,712	$ 1,356,881,550
Total fixed income investments	302,779,838	1,054,101,712	1,356,881,550
Variable earning investments			
Mutual funds	507,257,080	1,928,476,886	2,435,733,966
Collective investment trusts	256,735,989	718,298,710	975,034,699
Schwab self-directed brokerage account	8,214,167	21,655,302	29,869,469
Total variable earning investments	772,207,236	2,668,430,898	3,440,638,134
Receivables			
Notes receivable from participants	4,324,716	24,305,155	28,629,871
Contributions receivable	850,892	730,538	1,581,430
Total receivables	5,175,608	25,035,693	30,211,301
Total assets	1,080,162,682	3,747,568,303	4,827,730,985
Liabilities			
Accounts payable	862,733	545,582	1,408,315
Total liabilities	862,733	545,582	1,408,315
Fiduciary Net Position Held in Trust	$ 1,079,299,949	$ 3,747,022,721	$ 4,826,322,670

See Notes to Combined Financial Statements

State of South Carolina Deferred Compensation Program

Combined Statement of Changes in Fiduciary Net Position

For the year ended December 31, 2022

	457 Plan	401(k) Plan	Total
Additions			
Investment income	$ 32,033,301	$ 119,143,687	$ 151,176,988
Net change in value of investments	(193,486,356)	(724,326,512)	(917,812,868)
Net investment income (loss)	(161,453,055)	(605,182,825)	(766,635,880)
Contributions from participants	58,038,492	137,123,765	195,162,257
Contributions from employers	-	9,304,636	9,304,636
Total contributions	58,038,492	146,428,401	204,466,893
Miscellaneous income	229,725	912,901	1,142,626
Total additions	(103,184,838)	(457,841,523)	(561,026,361)
Deductions			
Distributions	93,040,976	268,274,889	361,315,865
Participant fees	1,165,045	4,626,074	5,791,119
Administrative expenses	250,807	1,006,049	1,256,856
Total deductions	94,456,828	273,907,012	368,363,840
Change in Fiduciary Net Position	(197,641,666)	(731,748,535)	(929,390,201)
Fiduciary Net Position Held in Trust,			
Beginning of year	1,276,941,615	4,478,771,256	5,755,712,871
End of year	$ 1,079,299,949	$ 3,747,022,721	$ 4,826,322,670

See Notes to Combined Financial Statements

Note 1. General Description of Deferred Comp

The financial statements of the South Carolina Deferred Compensation Program (Deferred Comp) are provided for general information only. Users of the financial statements should refer to the plan documents for complete information. The statements presented herein contain the following defined contribution plans:

- **State of South Carolina 457 Deferred Compensation Plan and Trust (457 plan)** - the plan was established by the South Carolina General Assembly on May 11, 1977 through Act 97. Enrollment in the 457 plan began in August 1980, and the first contributions were made in September 1980; and
- **State of South Carolina Salary Deferral [401(k)] and Savings Profit Sharing Plan and Trust (401(k) plan)** - the plan was established by the South Carolina Deferred Compensation Commission (the Commission) effective January 1, 1985. Contributions to the plan began in October 1985.

The Commission, established in Chapter 23 of Title 8 of the State of South Carolina (the State) Code of Laws, was the trustee of Deferred Comp through December 31, 2013. Effective after December 31, 2013, the Commission was abolished, and all of the functions and duties of the Commission were devolved upon the Board of Directors of the South Carolina Public Employee Benefit Authority (PEBA). PEBA was created by the South Carolina General Assembly effective July 1, 2012, and is the state agency responsible for the administration and management of the state's employee insurance programs and retirement systems.

The governing board of the authority is a board of directors consisting of 11 members. The membership composition is as follows:

- three non-representative members appointed by the Governor;
- two members appointed by the President Pro Tempore of the Senate, one a non-representative member and one a representative member who is either an active or retired member of the South Carolina Police Officers Retirement System (PORS);
- two members appointed by the Chairman of the Senate Finance Committee, one a non-representative member and one a representative member who is a retired member of the South Carolina Retirement System (SCRS);
- two members appointed by the Speaker of the House of Representatives, one a non-representative member and one a representative member who must be a state employee who is an active contributing member of SCRS; and
- two members appointed by the Chairman of the House Ways and Means Committee, one a non-representative member and one a representative member who is an active contributing member of SCRS employed by a public school district.

Non-representative members of the PEBA board may not belong to the classes of employees and retirees from which representative members must be appointed. Individuals appointed to the PEBA board must possess certain qualifications.

Members of the PEBA board serve for terms of four years, on a staggered schedule and until their successors are appointed and qualify. Vacancies on the PEBA Board must be filled within 60 days in the manner of the original appointment for the unexpired portion of the term.

Approximately 750 South Carolina public sector entities (the employers) participate in Deferred Comp. These entities include state agencies, public and charter school districts, public higher education institutions, and other local subdivisions of government that have joined. State agencies are reported as one employer in the number of participating employers above.

Note 1. General Description of Deferred Comp (continued)

Eligibility:

In accordance with Deferred Comp provisions, any employee of a participating employer who elects to participate in Deferred Comp is eligible. Contributions to Deferred Comp are made through payroll deductions from an employee's total compensation subject to certain limits. At December 31, 2022, there were 24,255 participant accounts in the 457 plan and 74,181 participant accounts in the 401(k) plan.

Contributions:

Deferred Comp participants elect salary deferral contributions to reduce their compensation by not less than $10 per pay period and not more than 100 percent of their compensation; not to exceed the maximum contribution allowed by the IRS. Elections may be made in either dollar increments or percentage of salary per pay period. Amounts contributed on a pre-tax basis by participants are deferred, subject to the limitations above, for federal and state income tax purposes until distributions are paid to the participants.

Contribution limits for 2022 for the plans were as follows:

- **State of South Carolina 457 Deferred Compensation Plan and Trust (457 plan)** –
  - $20,500 for under age 50
  - $27,000 for age 50 and older (with age 50+ catch-up contribution)
  - Up to $41,000 with Special 457(b) catch up (cannot be combined with age 50+ catch-up)

  Effective January 1, 2009, the 457 plan was amended to provide for matching contributions at the discretion of the employer. This amendment permits employers to make contributions to the 457 plan on behalf of each employee who is a participant and who is active during the plan year at an amount to be determined by the employer. Contribution limits are the same whether the contribution is made by the employee or by the employer.

  Effective January 1, 2011, the 457 plan was amended to provide for Roth contributions. This amendment permits employees to contribute to the 457 plan with after-tax dollars.

- **State of South Carolina Salary Deferral [401(k)] and Savings Profit Sharing Plan and Trust (401(k) plan)** –
  - $20,500 for under age 50
  - $27,000 for age 50 and older (with age 50+ catch-up contribution)

  Effective July 1, 1999, the 401(k) plan was amended to provide for employer matching contributions. This amendment permits employers to make contributions to the 401(k) plan on behalf of each employee who is a participant and who is active during the plan year at an amount to be determined by the employer. Furthermore, the 401(k) plan was amended to provide for discretionary employer contributions, permitting an employer to make contributions to the plan on behalf of each employee who has not elected to make salary deferral contributions and who has an annual salary of less than $20,000 during such plan year. Employer matching and discretionary contributions shall not exceed contribution limitations as specified by the plan.

  Effective November 2, 2009, the 401(k) plan was amended to provide for Roth contributions. This amendment permits employees to contribute to the 401(k) plan with after-tax dollars.

Participant accounts:

Participant accounts are credited with the participant's salary deferral contributions, employer matching or discretionary contributions, investment earnings or losses, and investment revenue sharing rebates and is charged with an allocation of third-party administrator recordkeeping fees, investment option fees, and program administration fees.

Note 1. General Description of Deferred Comp (continued)

Vesting:

Participants are vested immediately in both their employee and employer contributions plus actual earnings thereon.

Distributions:

Participants may withdraw the present value of funds contributed to Deferred Comp based on the following:

- **State of South Carolina 457 Deferred Compensation Plan and Trust (457 plan)** –
  - severance of employment from a participating employer,
  - attainment of age 59½, or
  - due to unforeseen emergency, which requires plan approval.
- **State of South Carolina Salary Deferral [401(k)] and Savings Profit Sharing Plan and Trust (401(k) plan)** –
  - severance of employment from a participating employer,
  - attainment of age 59½, or
  - due to financial hardship, which requires plan approval.

Participants are allowed to take a rollover from their Deferred Comp account to purchase service credit in a defined benefit governmental plan such as the South Carolina Retirement System. They also have the option to take an in-service distribution of up to $5,000 at any time during the one-year period following the birth or legal adoption of a child.

Participants may select various payout options including lump-sum payments or installment payments for the following: a fixed period of time, a fixed dollar amount until the account is exhausted, or payments throughout the participants' life expectancy or joint life expectancy with a spouse. In the event of a participant's death, the participant's beneficiary would be entitled to claim the present value of funds contributed to Deferred Comp.

Notes receivable from participants:

Participants may borrow from their Deferred Comp account provided the note is at least $2,500 and not more than the greater of 50 percent of their vested account balance or $50,000. Notes are repayable in one to five years except for notes for the purchase of a primary residence which may be paid back over twenty years. Interest is charged at a fixed rate over the term of the note. The note's interest rate is established based upon prime interest rate plus an additional 2 percent, as listed in the Wall Street Journal on the last business day of the month prior to origination. Interest rates charged on participant notes ranged from 5.25 percent to 10.25 percent for the year ended December 31, 2022. The participant is charged a $50 issuance fee at the initiation of the note and a quarterly maintenance fee of $6.25 until the note is paid in full.

If a participant fails to repay a note at maturity or to make a scheduled payment by the end of the quarter following the quarter in which the payment was due, the note plus accrued interest is considered to be in default, and a Form 1099-R is issued to report the defaulted total as a distribution. Due to Internal Revenue Service (IRS) recordkeeping regulations, if a defaulted note was issued after January 1, 2002, and the participant is still active, the note remains on Deferred Comp's books. Management believes it is unlikely that such notes will be repaid since they have been reported to the participant and the IRS as withdrawals from the applicable plan. Therefore, management has excluded defaulted notes from notes receivable. Notes receivable from participants are valued at their unpaid balances plus accrued interest.

Accounts payable:

Deferred Comp holds funds from unclaimed distributions in a separate account until the payments are reissued. The funds are considered payable and are classified as accounts payable in the financial statements. Also included in accounts payable are administrative expenses incurred on or before December 31 but not paid until the following year.

Note 2. Summary of Significant Accounting Policies

The financial statements of Deferred Comp have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following are the significant accounting policies used in preparing the accompanying financial statements of Deferred Comp.

Basis of accounting:

The financial statements have been prepared in accordance with GAAP, including all applicable effective statements of the GASB and the accrual basis of accounting.

Use of estimates:

The preparation of financial statements in conformity with GAAP requires PEBA to make estimates and assumptions that affect the reported amounts of assets, liabilities, and the changes therein and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Contributions and contributions receivable:

Contributions are recognized when amounts are withheld from employees. Contributions receivable represents amounts withheld from employees but not yet remitted to the third-party administrator at December 31.

Distributions:

Participant withdrawals are recorded when due and payable under the provisions of Deferred Comp.

Investment valuation and income recognition:

Variable earning investments are stated at fair value. If available, quoted market prices are used to value investments. Units of collective investment trusts are stated at net asset value as provided by the fund managers.

Investments in the Stable Value Fund are valued at contract value reported daily by Great-West Life & Annuity Insurance Company (Company), which approximates fair value. The investment valuation includes contributions received plus investment income earned to date less applicable fees and amounts withdrawn.

Purchases and sales of securities are recorded on a trade-date basis. Variable earning investment income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net realized and unrealized gains and losses on investments are included in the net appreciation in fair value of investments as reported on the combined statement of changes in fiduciary net position. Interest on participant loans is recorded as earned on the accrual basis.

Administrative expenses:

All direct expenses of maintaining Deferred Comp are paid from Deferred Comp's net position.

Subsequent events:

These financial statements have not been updated for events occurring subsequent to July 28, 2023, which is the date these financial statements were available to be issued.

Note 3. Investments

Deferred Comp investments are managed by several fund managers and are subject to various risks. Among these risks are custodial credit risk, credit risk, concentration of credit risk, foreign currency risk, and interest rate risk. Each one of these risks is discussed in more detail below.

Custodial credit risk:

Custodial credit risk, as it relates to investments, is the risk that in the event of the failure of the custodian, Deferred Comp would not be able to recover the value of investments or collateral securities that are in the possession of the third-party. Deferred Comp's investment securities are exposed to a minimal level of custodial credit risk as they are held in segregated trust accounts with the custodian but in the name of Deferred Comp.

Credit risk:

Credit risk is the risk that an issuer or the counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating agencies such as Moody's Investor Services (Moody's), Standard & Poor's (S&P), and Fitch Ratings (Fitch). Deferred Comp manages the overall credit risk of its fixed income investments by requiring the Stable Value Fund to invest in accordance with PEBA's approved Statement of Investment Policy (the Policy).

The Policy lists the primary objective of the Stable Value Fund to preserve principal and provide a stable, competitive rate of return. The Company is permitted to invest Deferred Comp assets in investment grade fixed income instruments, including those of the U.S. Government and its agencies, corporate bonds, and mortgage and asset-backed securities. According to the Company's contract with Deferred Comp (the Contract), the Company must maintain or exceed an overall weighted average credit quality rating by Moody's of "Aa2" (or equivalent of Aa2) within the Stable Value Fund at all times. At the time of issuance, investments must meet or exceed the following Moody's credit ratings: Commercial paper - P; Corporate bonds - A3; and Asset backed securities, agency mortgage-backed securities, agency collateralized mortgage obligations, and commercial mortgage-backed securities – Aaa.

Deferred Comp also offers participants the ability to invest in two bond mutual funds: the Baird Aggregate Bond Fund and the Fidelity Inflation-Protected Bond Index. The average S&P rating of holdings for the Baird Aggregate Bond Fund is an "A" rating. The Fidelity Inflation-Protected Bond Index's holdings consist of obligations of the U.S. government, which are not considered to have credit risk.

Concentration of credit risk:

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The concentration of investments is determined by the participants' elections to invest in the available investment options as selected by the Board. Mutual funds and collective investment trust funds that exceed 5 percent of fiduciary net position held in trust are identified in Note 5 on page 17.

The Stable Value Fund balance at December 31, 2022, exceeded 5 percent of fiduciary net position held in trust. The Contract dictates that amounts in the fund must be invested in accordance with the following limits:

- A minimum of 50 percent must be invested in U.S. Treasury debt, agency mortgage-backed securities or collateralized mortgage obligations.
- A maximum of 35 percent may be invested in corporate bonds or asset-backed securities.
- A maximum of 20 percent may be invested individually in either corporate bonds or asset-backed securities.
- No more than 10 percent may be invested in corporate securities rated "BBB" as measured by Moody's.
- No more than 5 percent may be invested in any one corporate issuer (including asset-backed securities). For purposes of diversification, each asset-backed or non-agency mortgage-backed securities will be treated as a separate issuer.

Note 3. Investments (continued)

Foreign currency risk:

Foreign currency risk is the risk that changes in exchange rates could adversely affect the fair value of an investment. Deferred Comp allows the option to invest in mutual funds of countries outside of the U.S that invest in securities not required to disclose the individual assets within the fund. Such international funds are identified in Note 5 on page 17.

Interest rate risk:

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a theoretical measurement that gauges the sensitivity of a particular bond to changes in interest rates based on current prepayment speeds and scheduled interest payments. The Contract limits the Stable Value Fund's average duration to not exceed 5 years. The Stable Value Fund's average duration at December 31, 2022 was 3.2 years. Refer to Footnote 4, Stable Value Fund for a table summarizing fixed income investments by their credit rating and future maturities. The average effective duration for the Baird Aggregate Bond Fund and Fidelity Inflation-Protected Bond Index are 6.2 and 6.8, respectively.

Fair Value Measurements:

Fair value measurements are categorized within the fair value hierarchy defined in GASB Statement No. 72, *Fair Value Measurement and Application*. The hierarchy is based on the valuation inputs used to measure the fair value of the assets and consists of three levels as follows:

Level 1 inputs: Quoted prices (unadjusted) for identical assets or liabilities in active markets that a reporting entity can access at the measurement date. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2 inputs: Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs: Unobservable inputs for an asset or liability. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, Deferred Comp utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible in its assessment of fair value.

Fair value of certain investments that do not have a readily determinable fair value is established using net asset value (or its equivalent) as a practical expedient. These investments are not categorized according to the fair value hierarchy.

Note 3. Investments (continued)

Deferred Comp had the following recurring fair value measurements as of December 31, 2022:

		Fair Value Measurements Using		
	At 12.31.2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments at fair value				
Mutual funds	$ 2,435,733,966	$ 2,435,733,966	$ -	$ -
Self-directed brokerage	29,869,469	29,869,469	-	-
Total investments at fair value	$ 2,465,603,435	$ 2,465,603,435	$ -	$ -
Investments at net asset value (NAV)				
Collective investment trusts	$ 975,034,699			
Investments at contract value				
Stable value fund	$ 1,356,881,550			
Total investments	$ 4,797,519,684			

Mutual funds and self-directed brokerage: These investments are stated at the fair value of shares held by the plans at year-end, which are determined by quoted market prices.

Collective investment trusts: This investment type includes:

- a fund that invests primarily in non-U.S. common stocks, and
- a series of 11 target retirement date funds that are diversified across a range of asset classes and investment styles and are automatically rebalanced. Generally, the asset allocation of each target date fund gradually becomes more conservative as the fund nears the target retirement date.

The fair value of these investments has been determined using NAV per share of the fund as reported by the Investment Manager. There were no unfunded commitments or redemption notice periods for investments measured at the NAV.

Note 4. Stable Value Fund

The Stable Value Fund (the Fund) is an investment option in Deferred Comp in which bond securities are held as underlying investments in a segregated trust for participants. The Company is the Fund manager for Deferred Comp. All monies invested in the Fund are maintained and held separate and apart from the Company's general account and any other investment account the Company may have. In addition, the Company has assumed sole responsibility of providing wrap coverage in order to guarantee return of the participants' principal and accrued interest.

This investment seeks to preserve principal value and provide a relatively stable rate of interest income. The objective of the Fund is to achieve returns, which over time exceed the returns on bank savings accounts and money market funds. The Fund invests in securities issued by the U.S. Government or one of its agencies, as well as high-grade corporate bonds, and mortgage and asset-backed securities.

Quarterly interest rates are declared by the Company prior to each calendar quarter for participant accounts based upon factors such as the current yield of the investments held by the Fund and Fund expenses. Once declared, the effective interest rates are guaranteed for the calendar quarter. The quarterly effective interest rate declared each calendar quarter applies to all assets in the Fund regardless of the date of deposit. Interest is credited to the participants' accounts in the Fund daily, at a rate which compounds to the effective rate for the quarter.

Note 4. Stable Value Fund (continued)

The following represents the Fund's annual interest rate credited to participants for the quarters during the year ended December 31, 2022:

1Q 2022	1.85%
2Q 2022	1.80%
3Q 2022	1.95%
4Q 2022	2.20%

The following represents the contract value of the Fund's underlying investments by fixed income sector at December 31, 2022:

Fixed Income Sector	December 31, 2022
Treasuries	$ 69,200,959
Agency - Mortgage Backed Securities	594,314,119
Agency - Collateralized Mortgage Obligations	100,409,235
Agency - Commercial Mortgage Backed Securities	94,981,709
Asset Backed Securities	112,621,168
Non-Agency – Commercial Mortgage Backed Securities	86,840,419
Corporate Bonds	267,305,665
Cash and Equivalents	31,208,276
Total	**$ 1,356,881,550**

The following represents the contract value of the Fund's underlying investments by their Moody's Credit Rating at December 31, 2022:

Moody's Credit Rating	December 31, 2022
Aaa	$ 1,015,710,636
Aa1	6,407,431
Aa3	6,473,369
A1	42,156,843
A2	42,533,972
A3	44,078,486
Baa1	42,090,220
Baa2	40,565,031
Baa3	43,129,930
Not Rated	73,735,632
Total	**$ 1,356,881,550**

Note 4. Stable Value Fund (continued)

The following represents the contract value of the Fund's underlying investments by their future maturities at December 31, 2022:

Maturities in Years	December 31, 2022
Less than 1	$ 31,861,066
1-5	427,979,797
6-10	204,804,539
11-15	480,956,799
16 - 20	28,209,686
21 - 25	35,547,822
26 - 30	118,378,259
More than 30	29,143,582
Total	**$ 1,356,881,550**

Mortgage-backed securities and collateralized mortgage obligations make up the majority of investments with maturities exceeding 10 years. The fair values of these securities are based on cash flows from principal and interest payments of the underlying mortgages and are subject to the credit worthiness of the individual mortgagors. These securities are sensitive to prepayments, which are likely in an environment of declining interest rates and thereby reduce the value of the security.

Note 5. Variable earning investments

Deferred Comp's variable earning investments are held by the custodian in pooled separate accounts. The following represents the fair value of Deferred Comp's units of participation at December 31, 2022:

	December 31, 2022	
Mutual funds		
Vanguard Institutional Index	$ 751,051,363	*
Dodge and Cox Stock	357,932,669	*
T. Rowe Price Mid Cap Value	253,061,994	*
T. Rowe Price Growth Stock	242,030,459	*
Baird Aggregate Bond Fund	191,687,662	
Hartford Mid Cap Fund	140,934,274	
American Funds EuroPacific Growth R6	139,263,330	**
Fidelity Inflation Protected Bond Index	119,546,078	
American Funds New Perspective	99,435,203	**
AllianceBerstein Small Cap Growth	70,394,773	
TIAA CREF Small Cap Blend	37,239,787	
American Beacon Small Cap Value	33,156,374	
	$ 2,435,733,966	

Collective investment trusts			**Effective Duration**
SSgA Target Retirement Income	$ 361,826,527	*	2.61
Fidelity Diversified International	195,738,553		
SSgA Target Retirement 2030	124,957,418		2.54
SSgA Target Retirement 2020	107,830,575		2.64
SSgA Target Retirement 2040	75,825,992		1.86
SSgA Target Retirement 2025	41,332,884		2.67
SSgA Target Retirement 2035	23,306,362		2.24
SSgA Target Retirement 2050	19,657,588		1.24
SSgA Target Retirement 2045	12,091,835		1.55
SSgA Target Retirement 2055	5,283,191		1.24
SSgA Target Retirement 2060	5,092,284		1.24
SSgA Target Retirement 2065	2,091,490		1.24
	$ 975,034,699		

* Represents investments exceeding 5 percent or more of net position.
** Represents international funds.

Note 6. Schwab Self-Directed Brokerage Account

Effective January 1, 2010, Deferred Comp participants have the option to invest in a self-directed brokerage account. The self- directed brokerage account is offered through Charles Schwab & Co., Inc. and allows participants to select from numerous mutual funds and other types of securities, such as stocks and bonds, for an additional fee or fees. As of December 31, 2022, the balance invested in the Schwab self-directed brokerage account was $29,869,469.

Note 7. Program Termination

Currently, there are no intentions to terminate either of the plans within Deferred Comp. However, the State reserves the right to terminate, suspend, withdraw, or amend Deferred Comp at any time.

Note 8. Tax Status

The 457 plan received a favorable determination from the IRS by private letter ruling dated March 25, 2009, stating the plan constitutes an eligible deferred compensation plan as defined in Section 457(b) of the Internal Revenue Code (IRC), and, as such, is exempt from federal and state income taxes. Amounts of compensation deferred by employees participating in the 457 plan are not subject to federal income tax withholding, and the compensation is not includable in taxable income until actually paid or otherwise made available to the participant, their beneficiary or their estate.

The 401(k) plan received a favorable determination from the IRS by letter dated March 18, 2014, as qualifying under Section 401(k) of the IRC and, as such, is also exempt from federal and state income taxes. As a result, amounts of compensation deferred by employees participating in the 401(k) plan are not subject to federal income tax withholding, and the compensation is not includable in taxable income until actually paid or otherwise made available to the participant, their beneficiary or their estate.

Revenue procedure 2016-37 modified the IRS determination letter program for qualified plans to eliminate, as of January 1, 2017, the five-year remedial amendment cycle system for individually designed plans. Although both plans have been amended since receiving favorable determinations from the IRS, Deferred Comp management believes that the plans are designed and being operated in compliance with the applicable requirements of the IRC. Therefore, they believe that the plans were qualified and the related trusts were tax-exempt as of the financial statement date.

Accounting principles generally accepted in the United States of America require Deferred Comp management to evaluate tax positions taken by Deferred Comp and recognize a tax liability (or asset) if Deferred Comp has taken an uncertain position that more likely than not would not be substantiated upon examination by the IRS. Management has analyzed the tax positions taken by Deferred Comp, and has concluded that as of December 31, 2022, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

Note 9. Risks and Uncertainties

Deferred Comp invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, credit risks, and global events. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the combined statement of fiduciary net position.

Note 10. Commitments

Effective July 1, 2017, PEBA entered into a contract with Segal Marco Advisors to provide investment consulting services for Deferred Comp. The contract required an annual fee of $58,000, payable in four equal quarterly installments. The initial contract period ran through June 30, 2020, but was extended the two allowable one-year periods carrying the contract through June 30, 2022. Costs associated with the investment consultant contract were shared pro-rata between the 457 plan and the 401(k) plan, based upon plan assets under management. There are no further commitments related to this contract.

Effective January 1, 2020, PEBA entered into a contract with Empower to provide recordkeeping, administration, communication, education, investment management and custodial trustee services for Deferred Comp. The initial contract period ran through December 31, 2022. The contract has been extended beyond the initial contract period but cannot exceed two additional one-year periods, which would carry the contract through December 31, 2024. Under the terms of the contract, participants pay Empower an annual recordkeeping fee of 0.065% of their account balance.

Effective July 1, 2022, PEBA entered into a contract with CapFinancial Partners, LLC D/B/A CAPTRUST Financial Advisors to provide investment consulting services for Deferred Comp. The contract requires an annual fee of $60,000, payable in four equal quarterly installments. The initial contract period runs through June 30, 2025, but may be extended for two additional one-year periods, which would carry the contract through June 30, 2027. Costs associated with the investment consultant contract are shared pro-rata between the 457 plan and the 401(k) plan, based upon plan assets under management.