



# Long-Term Services and Supports Trust Commission Investment Strategy Subcommittee Meeting

*November 12, 2020*

# Zoom Controls



# Zoom Controls

The image shows a screenshot of the Zoom meeting control bar at the top, with several icons: Mute, Stop Video, Security, Manage Participants, Polls, Chat, Share Screen, Record, Closed Caption, Breakout Rooms, Reactions, and End Meeting. Two callout boxes are present: a teal one pointing to the 'Manage Participants' icon with the text 'Raise Hand and other non-verbal cues', and an orange one pointing to the 'Closed Caption' icon with the text 'Toggle closed captions on/off'. Below the control bar, two expanded menus are shown. The first is the 'Raise Hand' menu, which includes icons for 'Raise Hand', 'yes', 'no', 'go slower', 'go faster', and 'more'. The second is the 'Closed Caption' menu, which shows a 'Closed Caption Font Size' slider set to 'Normal' and a preview area displaying 'These are default (small) sized subtitles.'

# Meeting Guidelines

## Commission Members

- Please turn on video
- Stay muted unless talking
- Encourage active participation
- Raise hand to speak if necessary
- Participate in polls

## Observers

- Please keep video off
- Please mute audio
- Please observe, but don't interact with meeting
- Okay to participate in polls
- Sign up in Chat tool if you wish to comment.

# Welcome and Call to Order

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# Meeting Goals

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1. Elect Chair of the Investment Strategy Subcommittee
2. Discuss solvency considerations
3. Understand the role of the State Investment Board and how it works
4. Request an Asset Allocation Study from the State Investment Board and understand general timeline
5. Provide feedback on the draft Investment Strategy Subcommittee charter
6. Share meeting schedule for 2021 and set agenda for the spring 2021 meeting

# Unfinished Business

None

# New Business

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# New Business

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- Investment Strategy Subcommittee Chair
- Solvency Considerations
- State Investment Board Presentation
- State Investment Board Asset Allocation Study
- Draft Investment Strategy Subcommittee Charter

# Investment Strategy Subcommittee Chair

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- Term will be 1 year beginning January 1, 2021
- Recommendations and people interested in chairing the subcommittee
- Call for nomination(s)
- Vote

# Solvency Considerations

*Presentation to:  
LTSS Investment Strategy Subcommittee*

*Matthew M. Smith, State Actuary*



# Today's Presentation

- To provide context and background for today's meeting topics
- Educational
- No action required today on this agenda item



# Investment Returns—A Key Component of Financing Program Costs

- Program costs comprised of benefit payments and expenses
- Program costs covered by two sources
  - Premiums
  - Returns on invested premiums
- Higher/lower returns on invested premiums lead to lower/higher required premiums, all else equal

# How Much of Future Costs Could be Covered by Returns?

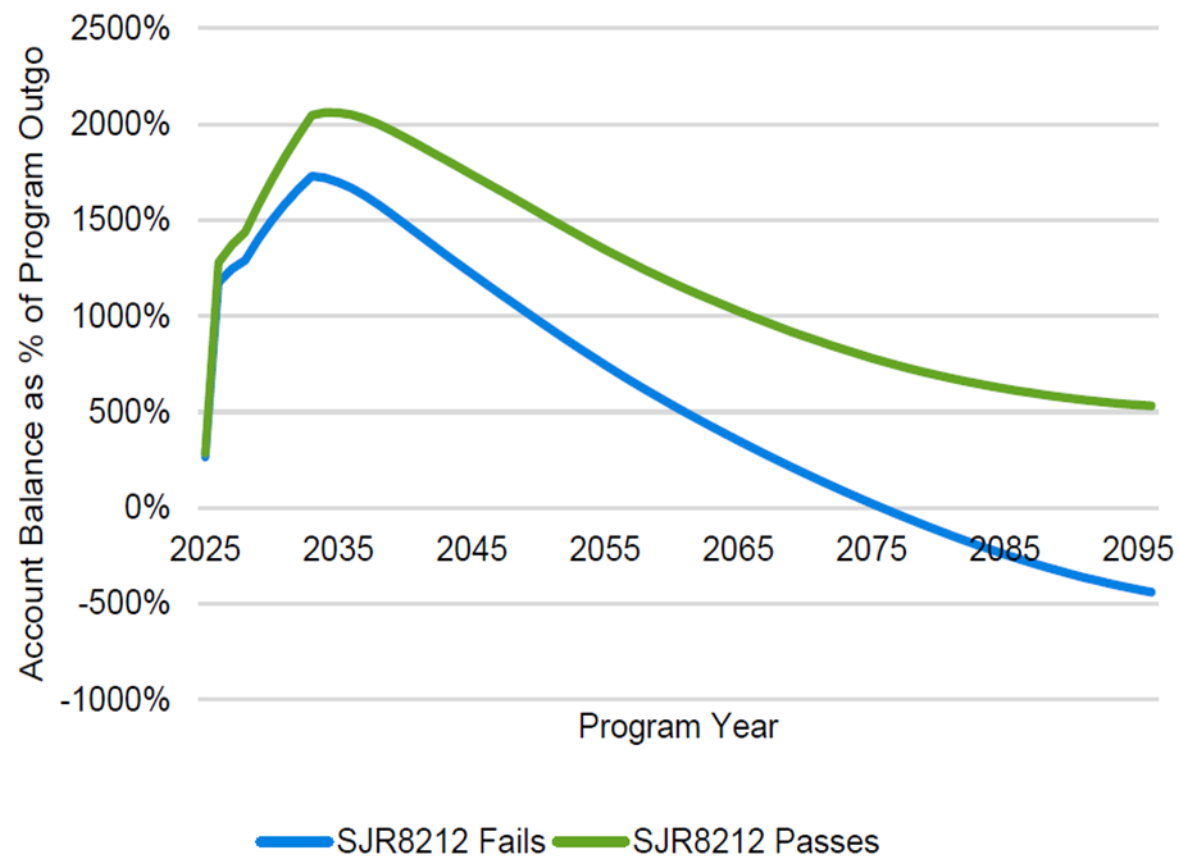
- Milliman provided the following illustration at the September LTSS Trust meeting
  - Full presentation available in the [September meeting materials](#)

Calendar Year	<u>SJR8212 Fails</u>		<u>SJR8212 Passes</u>	
	Contributions	Investment Income	Contributions	Investment Income
2030	93%	7%	81%	19%
2050	82%	18%	59%	41%
2070	94%	6%	63%	37%
2090	111%	-11%	75%	25%

- For the plan to remain solvent over time, it must have sufficient accumulated assets to pay all future benefits and expenses when due

# Latest Solvency Projections

Figure 1: Account Balance as a Percentage of Annual Program Outgo under 0.58% Premium Assessment



Milliman's 2020 WA LTSS Trust Actuarial Study available [here](#).

# Overview of Investment Roles and Responsibilities

## Investment Strategy Subcommittee

Provide guidance and advice to WSIB on investment strategies for LTSS Trust.

## OSA

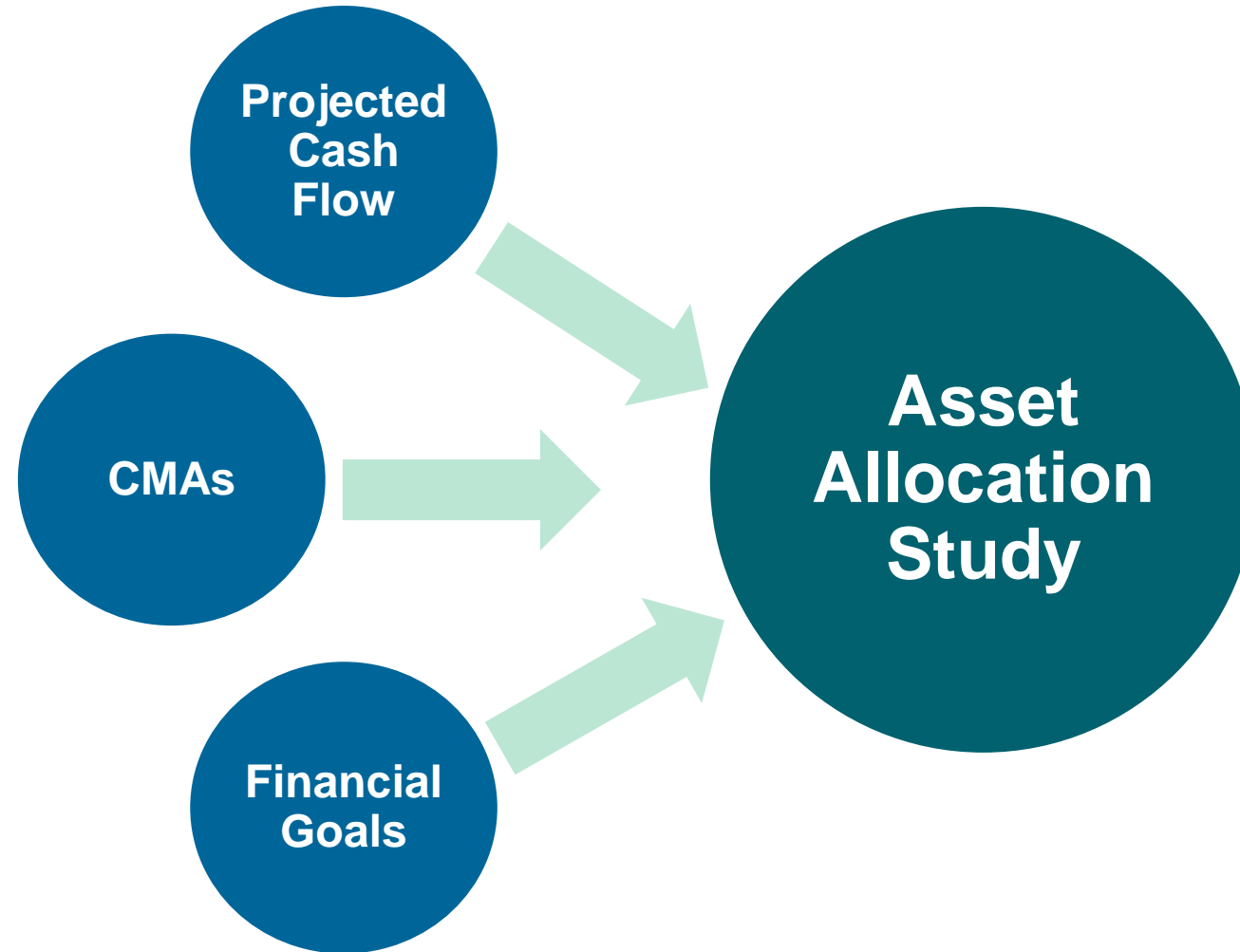
Assist the WSIB by providing cash flow projections and actuarial analysis.

## WSIB

Gather assumptions; perform initial asset allocation study. Establish investment policy; implement asset allocation. Provide investment management, performance reports, and periodic investment policy reviews.



# Key Inputs for Asset Allocation Study

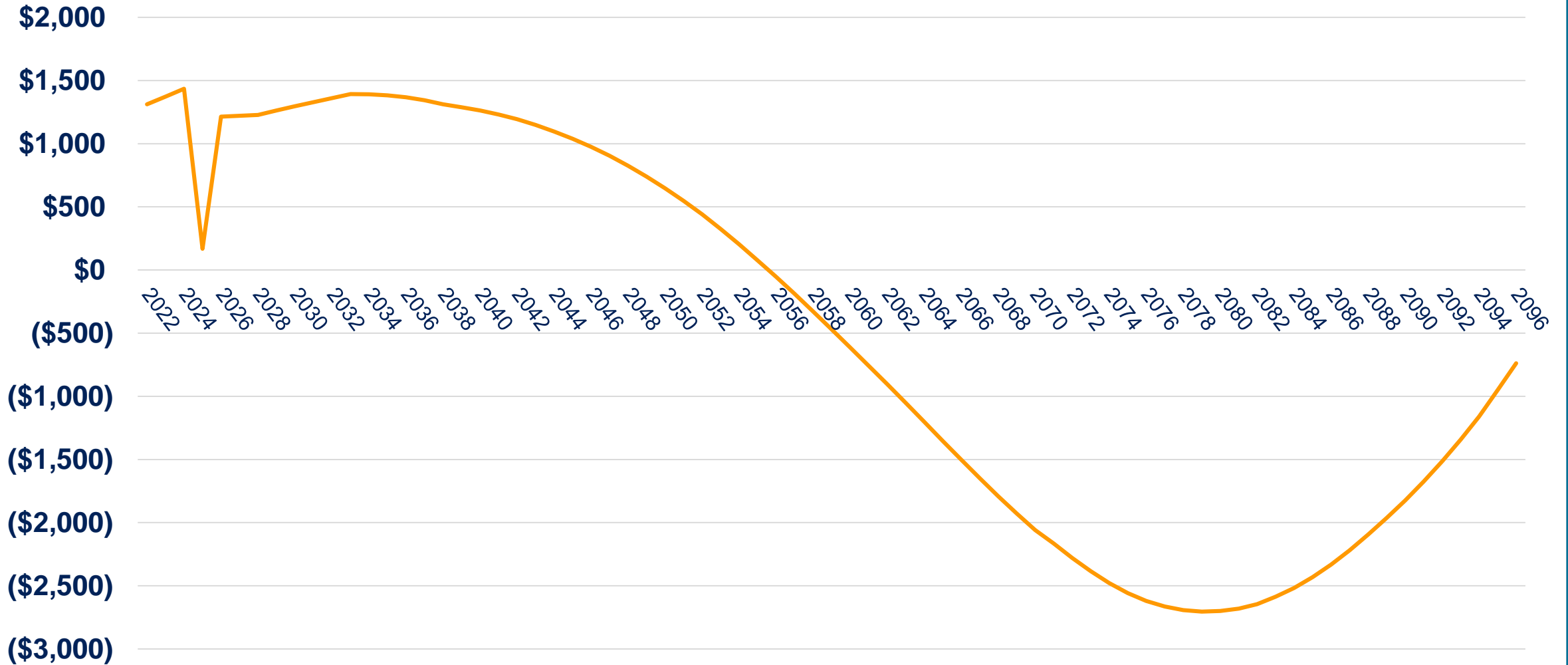


# Projected Cash Flow Informs Asset Allocation

- Based on Milliman's most recent analysis, we expect annual premiums to exceed annual benefit payments in the early years of the program
- This excess provides a base for investment earnings that must accumulate to build required funds to provide future benefits
  - Capital accumulation
- Based on the same projections, we expect the relationship to switch in the later years of the program
  - During this phase, we expect the program to spend down the capital accumulation when annual benefit payments exceed annual premiums
- Volatility of projected cash flow also a key consideration

# Illustration of Annual Net Cash Flow

(\$ in Millions)



Source: Office of the State Actuary.

# Capital Market Assumptions

- Assumptions for various asset classes that are used to construct portfolios that maximize return for given levels of risk
- CMAs represent the projected behavioral characteristics of asset classes in terms of
  - Risk (volatility)
  - Reward (return); and
  - Relationship (correlation)

# Program's Financial Goals Inform Asset Allocation

- The program's financial goals and risk tolerance will be key factors in selecting an optimal asset allocation
- What financial outcomes are desired?
- What financial outcomes should be avoided?
- The balance of risk versus reward in the program's asset allocation will be informed by answers to questions like these



## Asset Allocation Informs Assumed ROR

- Asset allocation is determined in the context of the items we just discussed plus other duties, policies, and procedures related to plan investments
- After the asset allocation is determined, we can set the assumed ROR for modeling
- The WSIB regularly performs updated asset allocation studies
- Optimal asset allocation can change over time
- Assumed rate of return frequently re-evaluated

# Assumed Rates of Return Used in Latest Modeling

- From Milliman's presentation at the September LTSS Trust meeting
  - Full presentation available in the [September meeting materials](#)

<u>Investment Return Rates Net of Investment Expenses</u>		
Calendar Year	SJR8212 Fails	SJR8212 Passes
2022	0.53%	3.36%
2023	0.68%	3.52%
2024	0.82%	3.67%
2025	0.95%	3.83%
2030	1.44%	4.20%
2050	2.32%	4.82%
2070	2.32%	4.82%
2090	2.32%	4.82%

## Key Next Steps

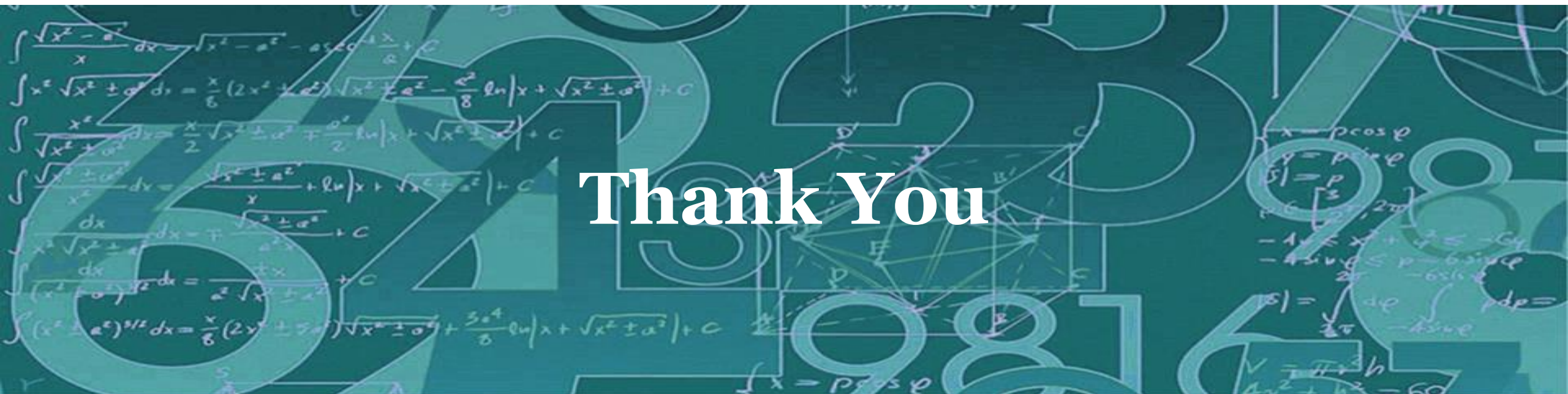
- WSIB to perform an inaugural asset allocation study and establish an initial investment policy
- LTSS investment strategy subcommittee guidance and advice to WSIB
- Updated baseline projections reflecting the clarification of key program parameters
  - May be provided during WSIB's asset allocation study
  - Could materially impact cash flow projections
- Selection of an updated assumed rate of return for future modeling
- Updated modeling to reflect new assumed rate of return
- Re-assessment of program solvency



*Please Contact: The Office of the State Actuary*  
*[leg.wa.gov/OSA](http://leg.wa.gov/OSA); [state.actuary@leg.wa.gov](mailto:state.actuary@leg.wa.gov)*  
*360-786-6140, PO Box 40914, Olympia, WA 98504*  
*Matthew M. Smith*

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**Thank You**



**Break**



## WSIB's Approach to Asset Management

### Long Term Services and Support Investment Strategy Subcommittee

November 12, 2020



**Theresa Whitmarsh**  
Executive Director

**Chris Phillips**  
Institutional Relations Director

**Chris Hanak**  
Senior Investment Officer - RMAA

## Who We Are - Overview of the WSIB



### Asset management profile

- ❑ \$145.4 billion assets under management as of June 30, 2020
- ❑ 17 pension funds
- ❑ 5 Labor and Industries insurance funds
- ❑ 12 Permanent and other public trust funds, plus Long Term Services and Supports (LTSS)

### Established in 1981 as an independent board

- ❑ 15-member board made up of 10 beneficiary representatives, elected officials, and state officials, together with 5 investment experts
- ❑ Designed to be free from political interference, with no single appointing authority able to control the board
- ❑ Executive director appointed by the Board and confirmed by the State Finance Committee, comprised of the Governor, Lieutenant Governor, and State Treasurer
- ❑ WSIB staff are employees of the state; however, the WSIB has its own compensation structure and budget authority for all investment related expenses

# Fundamental Policies



**Members of the WSIB are fiduciaries whose mission is to manage investments for retirement and public trust funds**

## Investment Objective

- ❑ “The Board shall establish investment policies and procedures designed exclusively to maximize return at a prudent level of risk.” (RCW 43.33A.110)

## Prudence

- ❑ “The State Investment Board shall invest and manage the assets entrusted to it with reasonable care, skill, prudence, and diligence under circumstances then prevailing which a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an activity of like character and purpose.” (RCW 43.33A.140)
- ❑ “The Board shall consider investments not in isolation, but in the context of the investment of the particular fund as a whole and as part of an overall investment strategy, which should incorporate risk and return objectives reasonably suited for that fund.” (RCW 43.33A.140)

## Diversification

- ❑ “The Board shall diversify investments, unless members reasonably determine the purposes of a particular fund are better served without diversifying. (RCW 43.33A.140 (2))

# Who We Are – Governance and Board Members



Board comprised of 15 members

- 10 voting
- 5 non-voting

## 3 EX-OFFICIO MEMBERS

**Duane Davidson**  
The State Treasurer

**Tracy Guerin**  
Director of DRS

**Joel Sacks**  
Director of L&I

VICE-CHAIR

CHAIR

## 2 LEGISLATORS

**Timm Ormsby**  
Member of the House of Representatives

**Mark Mullet**  
Member of the Senate

## 5 REPRESENTATIVES OF THE PUBLIC EMPLOYEE PENSION SYSTEMS

**Greg Markley**  
Member of LEOFF

**Judy Kuschel**  
Active Member of PERS

**Yona Makowski**  
Retired Member of State Pension System

**Sara Ketelsen**  
Member of TRS

**BJ Colvin**  
Member of SERS

## 5 NON-VOTING MEMBERS

**David Nierenberg**

**William A. Longbrake**

**Ada Healey**

**Mary Pugh**

**George Zinn**

## Who We Are – Staff and Investment Partners



- Staff consists of 109 employees
- Two offices: Olympia and Seattle
- Over 130 external investment managers and partners across five asset classes
- 51 investment professionals with a collective 511 years of WSIB experience and a collective 1,000+ years of investment markets experience
- 58 financial/accounting professionals and administrative staff
- Strong mission-driven culture based on non-negotiable integrity and fiduciary duty to beneficiaries

# Who We Are – Board and Committee Meetings



## Board Members and Meeting Information

▣ <https://www.sib.wa.gov/information/pdfs/board.pdf>

The screenshot shows a web browser window displaying the Washington State Investment Board's 2020 meeting schedule. The page title is "WASHINGTON STATE INVESTMENT BOARD" with a "BACK TO TOP" link. The main heading is "2020 BOARD AND COMMITTEE MEETINGS". The schedule is organized by month, with each month's meetings listed in a table. The meetings are color-coded: blue for Board Meetings, green for Audits, and light green for Public and Private Markets. A note at the bottom specifies regular meeting times: Board 9:30 am, Private Markets 9:00 am, Public Markets 1:00 pm, and Audit 9:00 am, with Admin times to be determined (TBD).

Month	Date	Meeting Type
February	20	Board Meeting
March	3	Audit
April	16	Board Meeting
	16	Audit (~1:00 P.M.)
June	2	Audit
	2	Public Markets
	4	Private Markets
	18	Administrative
	18	Board Meeting
July	16	Administrative
	16	Board Meeting
September	1	Audit
	3	Private Markets
	17	Administrative
	17	Board Meeting
November	5	Private Markets
	19	Administrative
	19	Board Meeting
December	1	Audit
	1	Public Markets
	3	Private Markets
	17	Administrative
	17-18	Board Meeting

Unless otherwise noted above, regular meeting times are:  
Board 9:30 am, Private Markets 9:00 am, Public Markets 1:00 pm, Audit 9:00 am, Admin TBD



# WSIB's Scope of Responsibility (38 Funds Managed)

## Retirement Funds

17

- ❑ Public Employees' Plans 1, 2, 3 \*
- ❑ School Employees' Plans 2, 3
- ❑ Teachers' Plans 1, 2, 3 \*
- ❑ Law Enforcement Officers' and Firefighters' Plans 1, 2
- ❑ Judicial Retirement Account – Defined Contribution
- ❑ Washington State Patrol Plans 1, 2
- ❑ Volunteer Firefighters' Relief and Pension Fund
- ❑ Deferred Compensation Program
- ❑ Public Service Employees' Plan 2
- ❑ Higher Education Retirement Plan Supplemental Benefit Fund

## Labor & Industries' Funds

5

- ❑ Accident
- ❑ Medical Aid
- ❑ Pension Reserve
- ❑ Supplemental Pension
- ❑ Industrial Insurance Rainy Day Fund (unfunded)

## Permanent Funds

7

- ❑ Agricultural College
- ❑ Common School
- ❑ Normal School
- ❑ Scientific
- ❑ State University
- ❑ American Indian Endowed Scholarship
- ❑ Foster Care Endowed Scholarship (unfunded)

## Other Funds

9

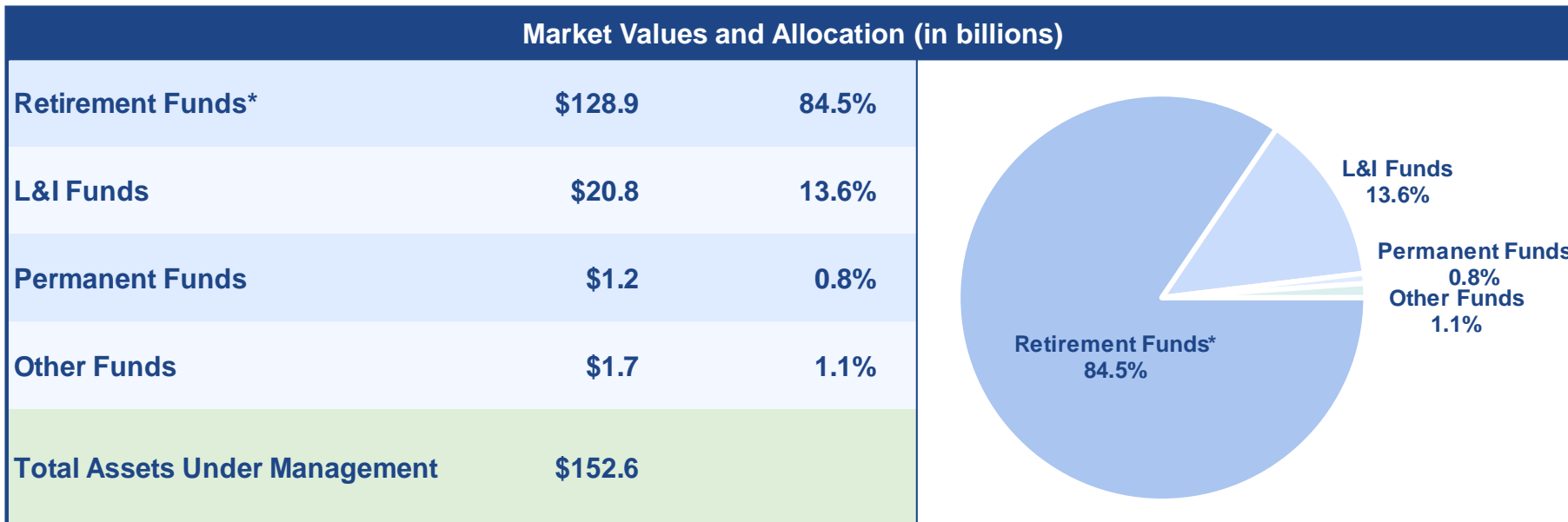
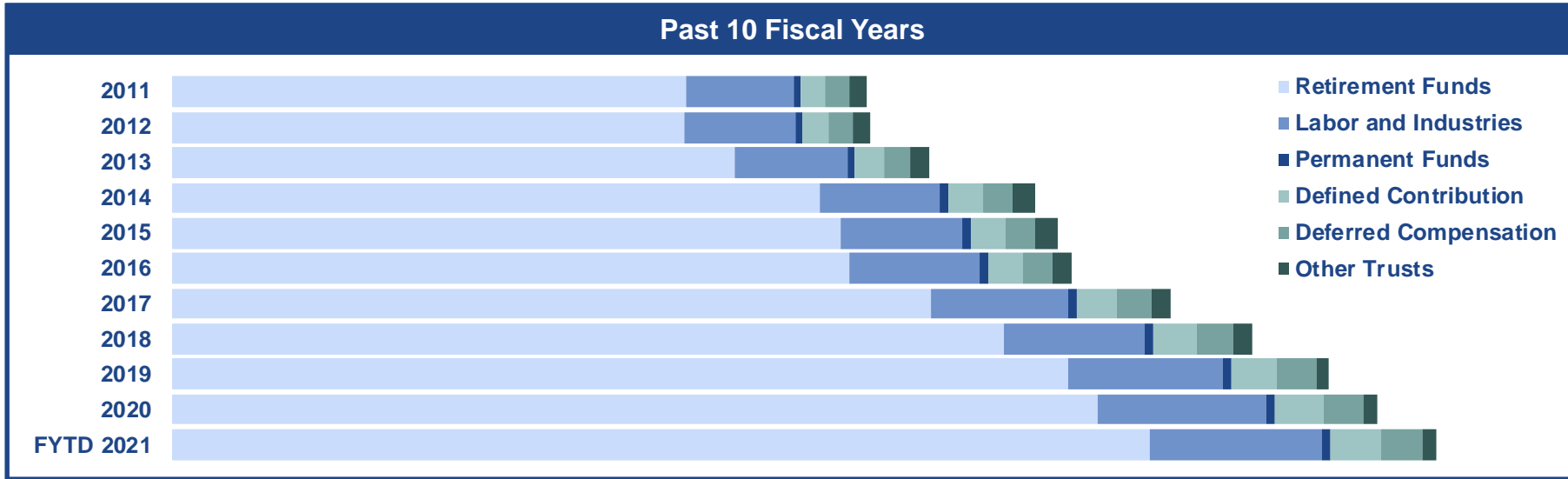
- ❑ Guaranteed Education Tuition
- ❑ Developmental Disabilities Endowment Fund
  - ❑ Private
  - ❑ State
- ❑ Washington State Opportunity Scholarship Fund
  - ❑ Scholarship
  - ❑ Endowment
  - ❑ Tech Pathway
  - ❑ Degree Pathway (unfunded)
- ❑ Long-Term Services and Supports (unfunded)
- ❑ Dan Thompson Memorial Fund

\* Plan 1s are closed to new participants. The Plan 3s are hybrid plans with both defined benefit and defined contribution assets.



# Total Assets Under Management

## September 30, 2020

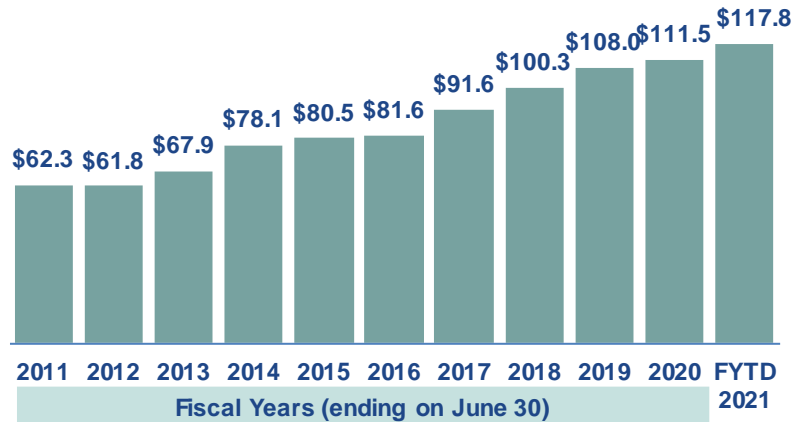


\*CTF, DC Funds, and Higher Education Retirement Plan

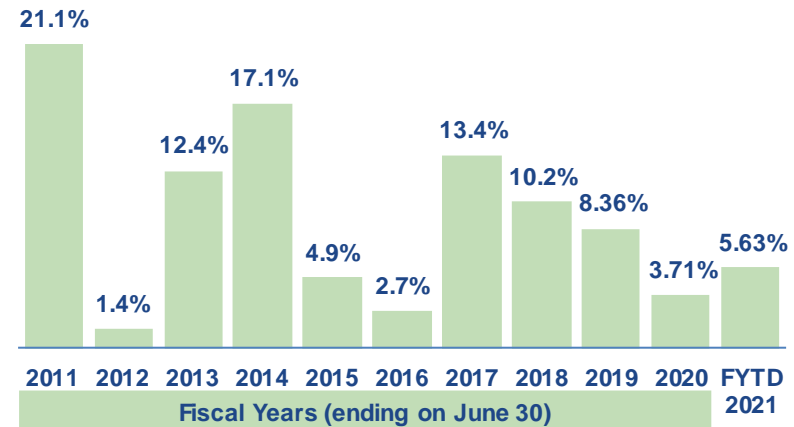
# Retirement Plans (CTF) Performance and Market Values

September 30, 2020

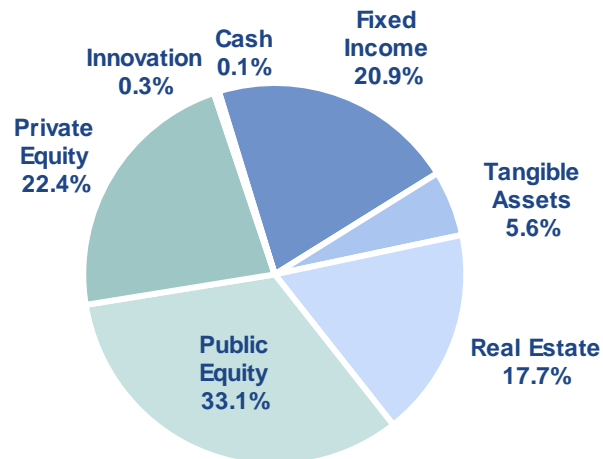
## Historical Market Value (billions)



## Historical Fund Returns



## Actual Allocation



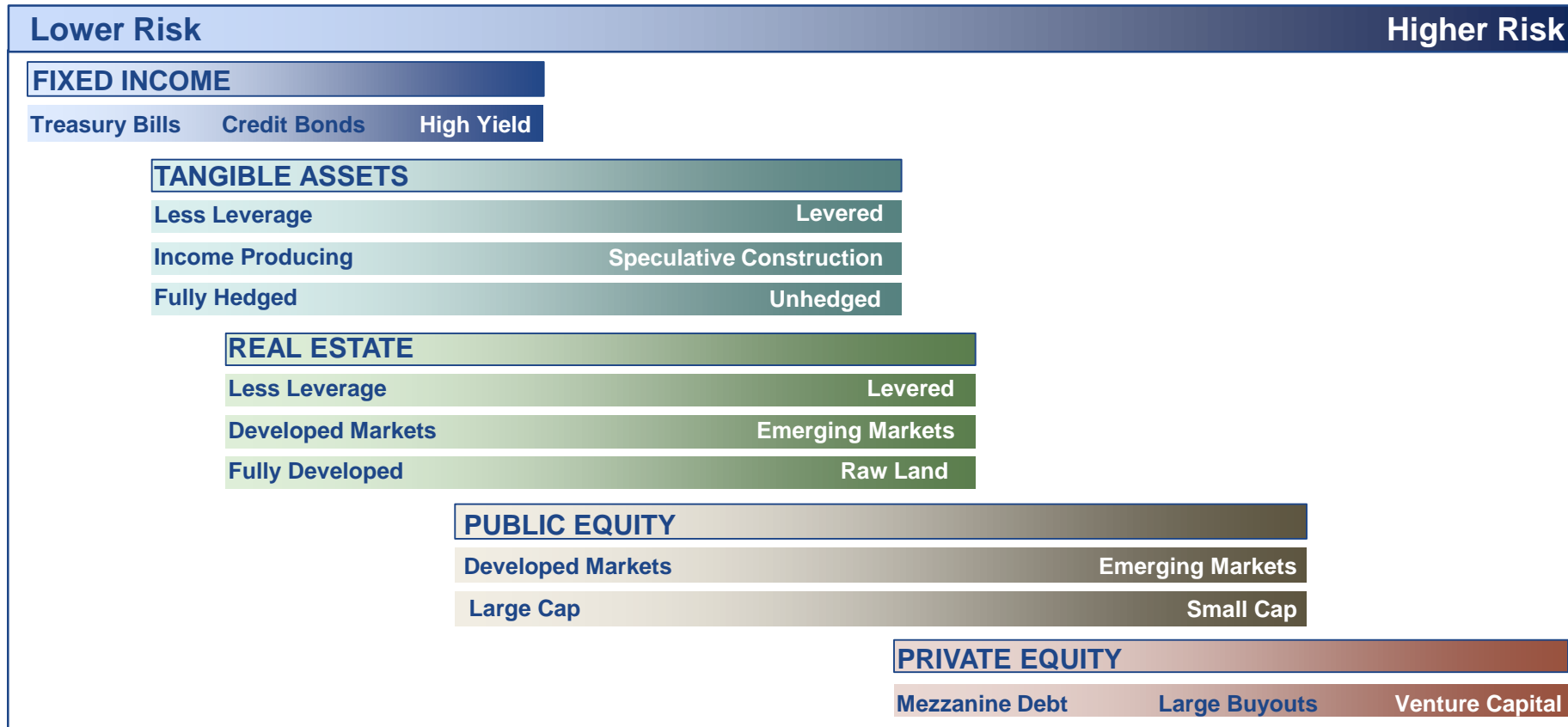
## Market Values and Returns

### Commingled Trust Fund (CTF) Market Values and Returns

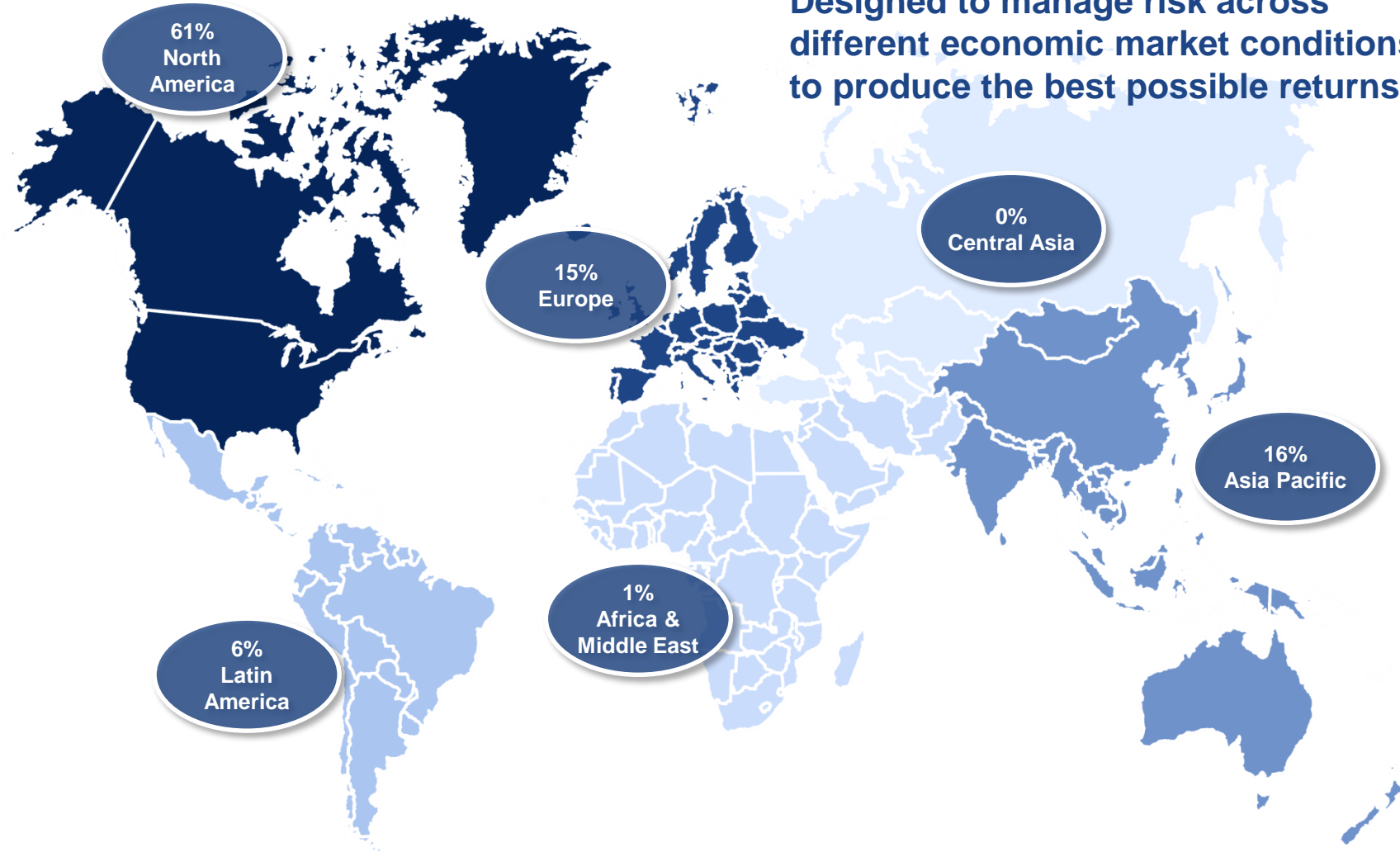
	Market Value (000s)	1 Year	3 Year	5 Year	10 Year
Total CTF	\$117,813,327,571	7.74%	7.93%	9.41%	9.14%
Fixed Income	\$23,090,318,889	8.73%	6.04%	5.84%	4.23%
Tangible Assets	\$6,548,461,966	-0.60%	2.93%	4.38%	3.97%
Real Estate	\$20,851,007,765	18.43%	6.02%	9.17%	9.87%
Public Equity	\$38,019,576,006	8.57%	6.82%	10.34%	9.04%
Private Equity	\$26,374,843,981	7.56%	11.49%	11.46%	12.84%
Innovation	\$341,243,302	-0.75%	-11.69%	-8.26%	-0.93%
Cash	\$2,587,875,662	1.05%	1.75%	1.32%	0.73%

# What We Do – Market Risk Spectrum

- WSIB seeks diversification across the portfolio and within each asset class
- Implementation within each asset class will determine how risk is concentrated
- Weight of each asset class must match risk profile

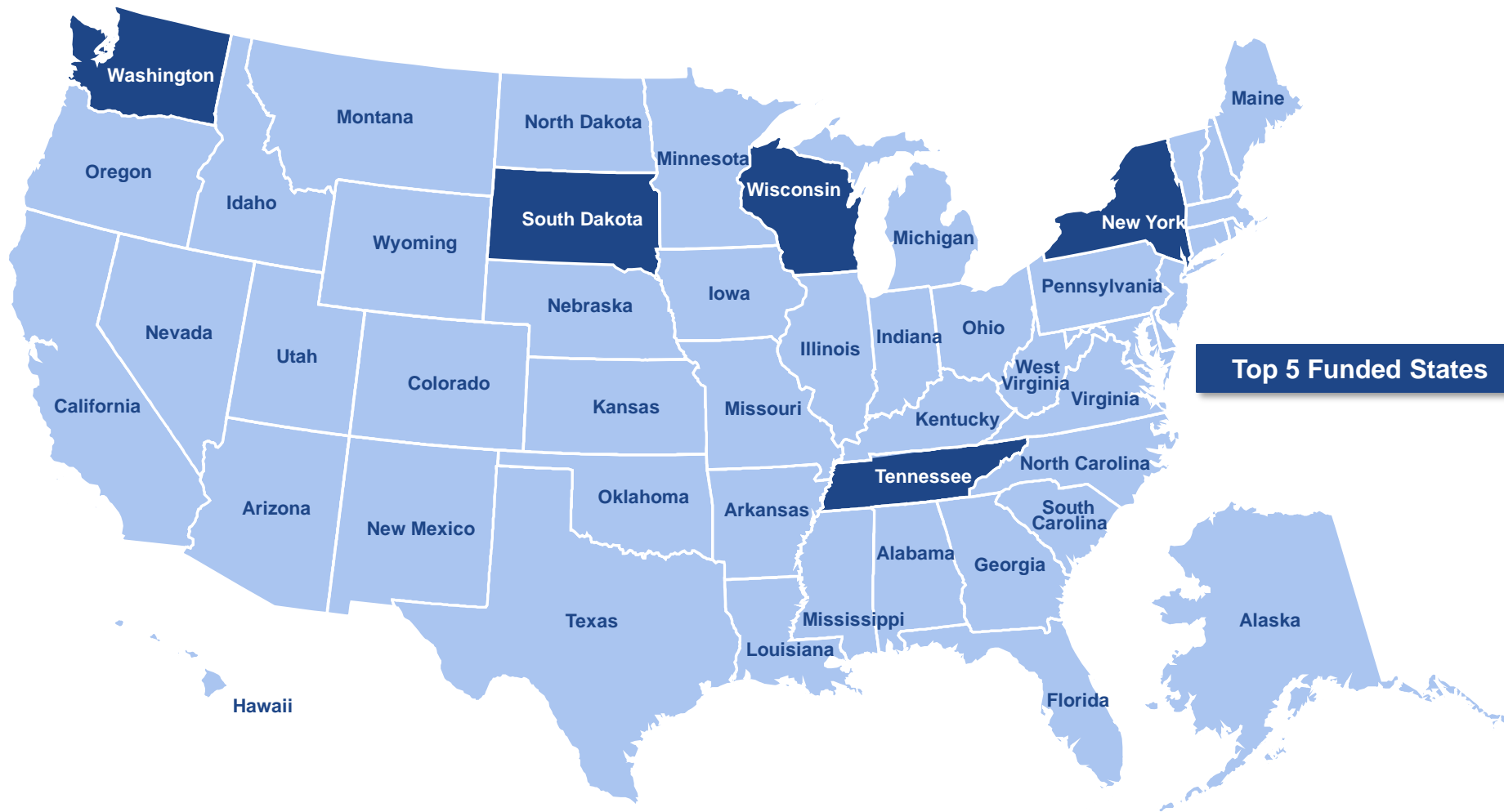


## Who We Are – Global Investor



# Our Results – A Strong Reputation

*One of the Best Funded Pension Systems in the Nation*



# Asset Stewardship and ESG factors



The WSIB evaluates an evolving range of environmental, social and governance (ESG) issues

- ❑ This affects our long-term ability to address risks and opportunities in the marketplace

## Asset Stewardship

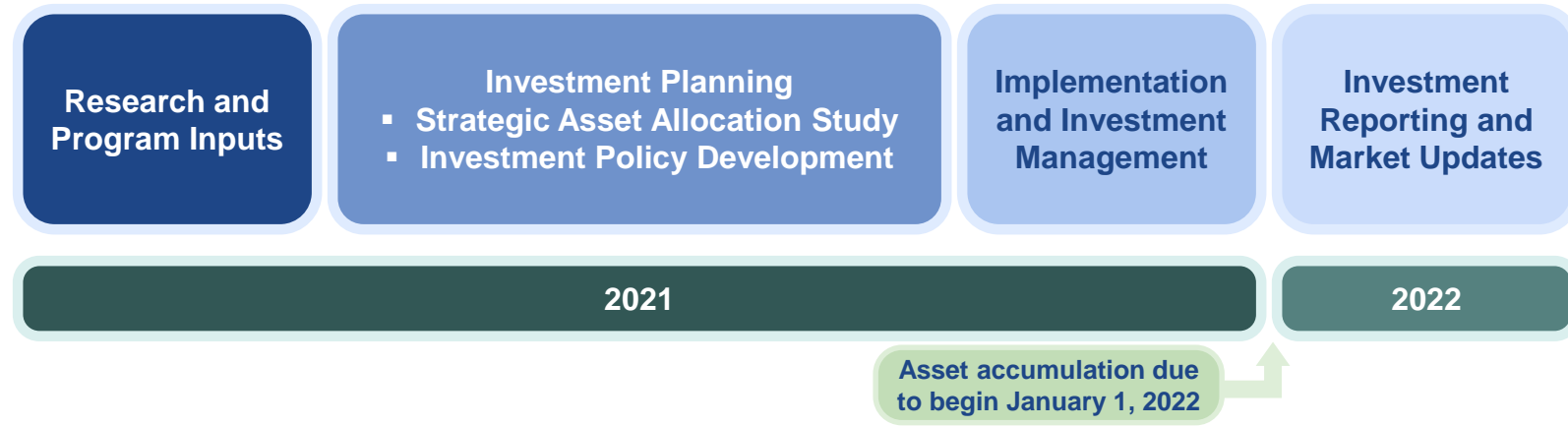
- ❑ Our asset stewardship efforts include core corporate governance practices of proxy voting, engagement with companies, and collective involvement with a select number of industry groups that share our beliefs and interests

## ESG Integration

- ❑ ESG factors such as climate change, diversity, and workers' rights can materially impact the investment decision making process, from strategic asset allocation to selecting individual investment strategies
- ❑ Our ESG integration efforts involve evaluating data, frameworks, and analysis
- ❑ Where appropriate, this information is used to inform our investment decisions

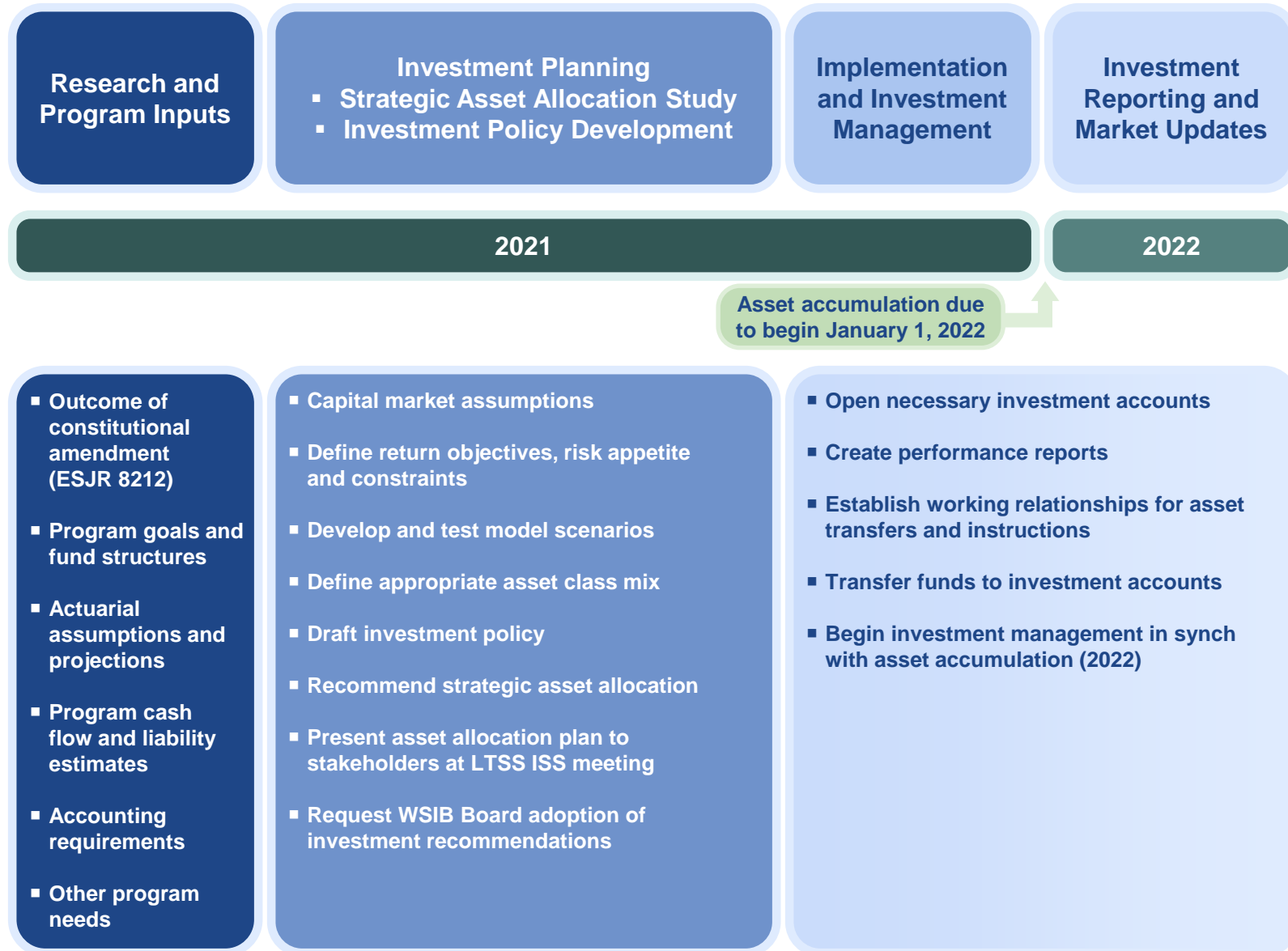


# The Process of Strategic Investing – The Big Picture





# The Process of Strategic Investing – The Work Flow for LTSS



## What is an Asset Allocation Study?



**Asset allocation is the process of dividing a portfolio among major asset categories such as bonds, stocks, or cash**

- ❑ **An asset allocation study defines construction of a portfolio in order to pursue the highest level of return at a set level of risk through diversification**
- ❑ **Diversification is the foundation of strategic to asset allocation because asset classes behave differently**
  - ❑ **Holding diversified positions allows the portfolio to have stronger performance in an area that offsets weaker performance in another**
- ❑ **The WSIB uses optimization models to provide guidance and a basis for discussions**
  - ❑ **It is important to understand that asset allocation is a combination of art and science**
- ❑ **There is no one right answer**
  - ❑ **Asset allocation policy should reflect the return objectives and risk tolerances of the stakeholders**

## The Importance of Asset Allocation



Research shows that asset allocation – more than market timing or security selection – has been found to explain the majority of a fund’s total return

- ▣ Selection of asset classes, the amount invested in each, and the correlation of those asset classes are the greatest source of return and risk to the retirement funds
  - ▣ The asset allocation mix is the foundation of the WSIB investment program and crucial to its success
  - ▣ Asset allocation policy, when viewed along with the respective investment policies in each asset class and the Board’s Investment Beliefs, constitutes the Board's view of a prudent and well-reasoned approach to the management of the entrusted funds
- ▣ WSIB’s central mandate is to maximize returns at a prudent level of risk

# Investment Risk Framework



**Risk is the potential for failure that results in loss, harm, or missed opportunity, including the risk of inaction**

- ❑ The WSIB uses an integrated risk management approach where risk is measured at the investment, asset class, and portfolio levels
- ❑ Risk must be acknowledged from multiple viewpoints, including quantitative and qualitative views
- ❑ Only some investment risks can be clearly defined and measured at the present time (or ever in some cases)

## Primary Risk Types

Investment Risks	Assumption Risks	Plan Risks
Market risk	Capital market assumptions	Funded ratio
Leverage	Inflation assumptions	Contribution stability
Liquidity	Liability assumptions	Contribution levels/policies
Concentration risk		Program/benefit policies
Credit risk		
Interest rate risk		

# The Working Relationship – Your WSIB Service Team



## WSIB's Online Information Sources



### The WSIB Story (2-page fact sheet)

- ▣ [https://www.sib.wa.gov/wsib\\_story.pdf](https://www.sib.wa.gov/wsib_story.pdf)

### The Funds We Manage

- ▣ <https://www.sib.wa.gov/information/pdfs/funds.pdf>

### Our Investment Asset Classes

- ▣ [https://www.sib.wa.gov/information/pdfs/asset\\_classes.pdf](https://www.sib.wa.gov/information/pdfs/asset_classes.pdf)

### Our Core Investment Beliefs

- ▣ [https://www.sib.wa.gov/information/pdfs/db\\_investment\\_beliefs.pdf](https://www.sib.wa.gov/information/pdfs/db_investment_beliefs.pdf)

### Our investment reports

- ▣ <https://www.sib.wa.gov/financial/invrep.asp>

### WSIB ESG Report 2020

- ▣ [https://www.sib.wa.gov/information/pdfs/esg\\_2020.pdf](https://www.sib.wa.gov/information/pdfs/esg_2020.pdf)

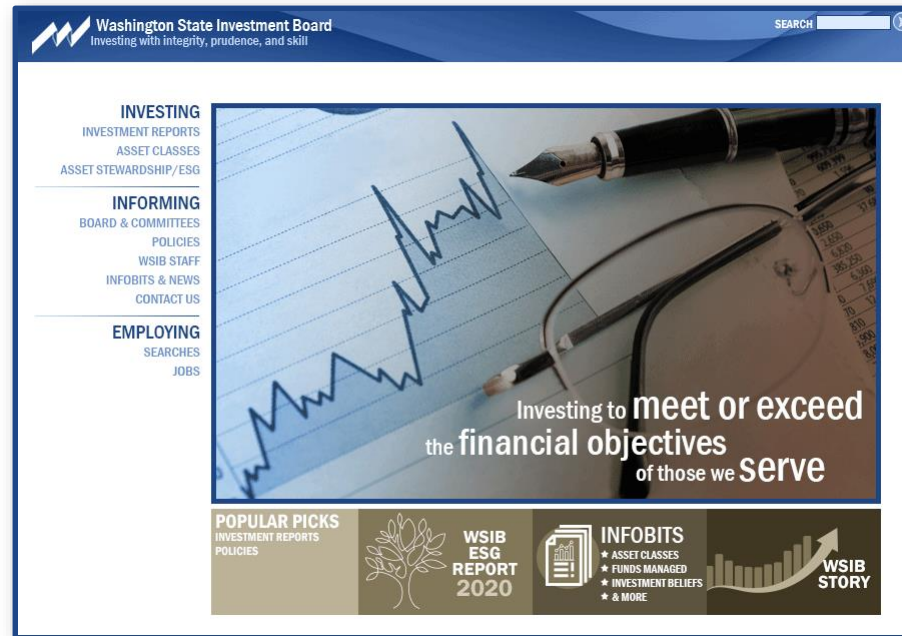
# Contact Information



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**Chris Hanak:** [chris.hanak@sib.wa.gov](mailto:chris.hanak@sib.wa.gov)

**Web Site:** <http://www.sib.wa.gov>



**Address:** 2100 Evergreen Park Drive SW  
P.O. Box 40916  
Olympia, WA 98504-0916

**Phone:** (360) 956-4600

# WSIB Asset Allocation Study & General Timeline

- 2021 – WSIB completes Asset Allocation Study\*
- Spring 2021 – WSIB provides progress update on the study to the Subcommittee & timelines for reviews & approvals are confirmed
- Fall 2021 – WSIB provides recommendations from the study
  - Reviews and approvals are completed in time for investment implementation of LTSS Trust assets beginning in early 2022
- Fall 2021 – Subcommittee provides update on the study to the LTSS Trust Commission
- January 2022 – Employers start collecting premiums
- April 2022 – Employers submit premiums to the Employment Security Department (quarterly thereafter)
- Starting in 2022 – WSIB provides quarterly reports to the Subcommittee regarding fund/market performance

\*The nature of the study will depend on the outcome of ESJR 8212



# Request Asset Allocation Study

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# Draft Investment Strategy Subcommittee Charter

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- Gather feedback

# Next Steps

- Investment Strategy Subcommittee meetings in 2021
  - Spring 2021
  - Fall 2021
  - Other meetings as needed
- Potential agenda items for Spring 2021 meeting
  - Update on Asset Allocation Study\* from WSIB
  - Confirm dates for reviews and approvals
    - Investment Strategy Subcommittee review of asset allocation study recommendations
    - WSIB Board of Trustees approval of asset allocation study recommendations

\*The nature of the study will depend on the outcome of ESJR 8212

# Wrap-Up

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- Action items review
- Adjourn

A close-up photograph of a wooden oar resting on the surface of blue water. The oar is positioned diagonally from the bottom right towards the center. The water is covered in numerous concentric ripples, suggesting recent movement or disturbance. The lighting is soft, creating a calm and serene atmosphere. A semi-transparent yellow rectangular box is overlaid on the left side of the image, containing the text 'Thank You' in a bold, dark blue font.

**Thank You**