



# LTSS Trust Commission Investment Strategy Subcommittee Meeting



# MEETING GUIDELINES

## Commission Members

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

## Observers

- Opportunity to provide public comment later in the meeting

# WELCOME & CALL TO ORDER



# MEETING GOALS

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- Receive update on WA Cares Fund investment plan and provide feedback
- Set date for next Investment Strategy Subcommittee meeting and provide input on agenda

# CONSENT AGENDA

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- 11/9/2021 Investment Strategy Subcommittee meeting minutes

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# OLD BUSINESS

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WA Cares Fund Investment Plan

# WA CARES – INVESTMENT PLAN UPDATE

APRIL 5, 2022

Christopher Hanak, Chief Investment Officer



# AGENDA

- Washington State Investment Board (WSIB) Authority
- Assessment of Program's Risk Tolerance
- Historical Performance
- Recommended Portfolio Input Considerations
- Recommended Portfolio Risk and Return Metrics
- Recommended Portfolio Simulated Expected Return
- Investment Policy Components
- Next Steps
- Contact Information



## WSIB AUTHORITY

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

### 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 (1))

### 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))



## ASSESSMENT OF PROGRAM'S RISK TOLERANCE

As a newly established program, WA Cares will begin accumulating assets in the third quarter of 2023

- The program is funded by employee payroll deductions and investment income

WA Cares stable source of funding, low forecasted payout ratio, and long investment horizon indicate the ability to bear a higher level of risk

The investment program will consist of a customized fixed income fund actively managed by the WSIB with the following characteristics

- Invested in interest-producing debt securities with varying maturity, structure, and credit ratings
- Expected to meet or exceed the return of the Bloomberg U.S. Universal Index
- Managed to maintain a portfolio duration within plus or minus 25 percent of the index

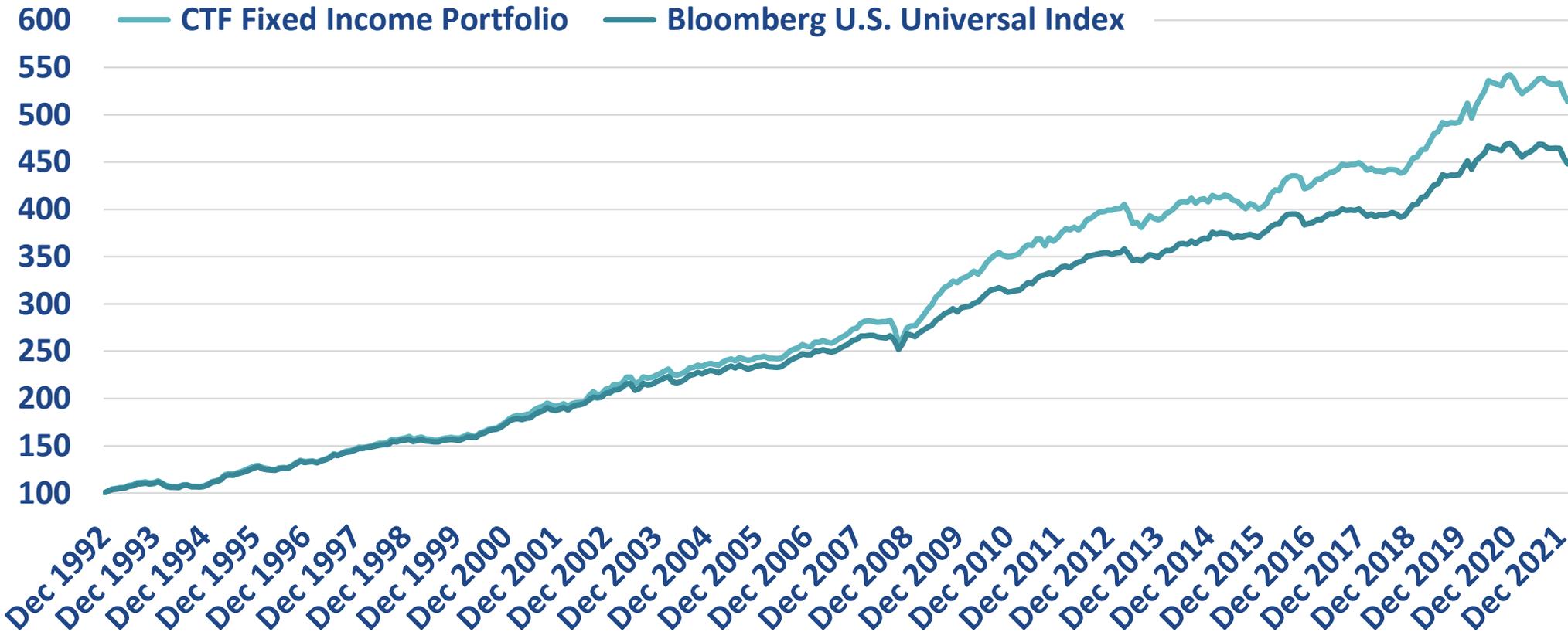


# HISTORICAL PERFORMANCE

The WA Cares fund will be invested in similar manner to the fixed income component of the Retirement Funds' Commingled Trust Fund (CTF)

The WSIB has a long history of strong risk adjusted performance in its actively managed fixed income portfolios

## GROWTH OF \$100 SINCE INCEPTION



## RECOMMENDED PORTFOLIO INPUT CONSIDERATIONS

The recommended portfolio is based on modeling using the most recent WSIB capital market assumptions and Milliman's most recent cash flow projections



The WSIB capital market assumptions reflect 15-year projected returns, which consider normalization of central bank easing policies that could result in higher interest rates. Long-term fixed income returns are heavily impacted by bond yields at purchase, and higher future interest rates would help increase expected return as the portfolio is built out through future contributions

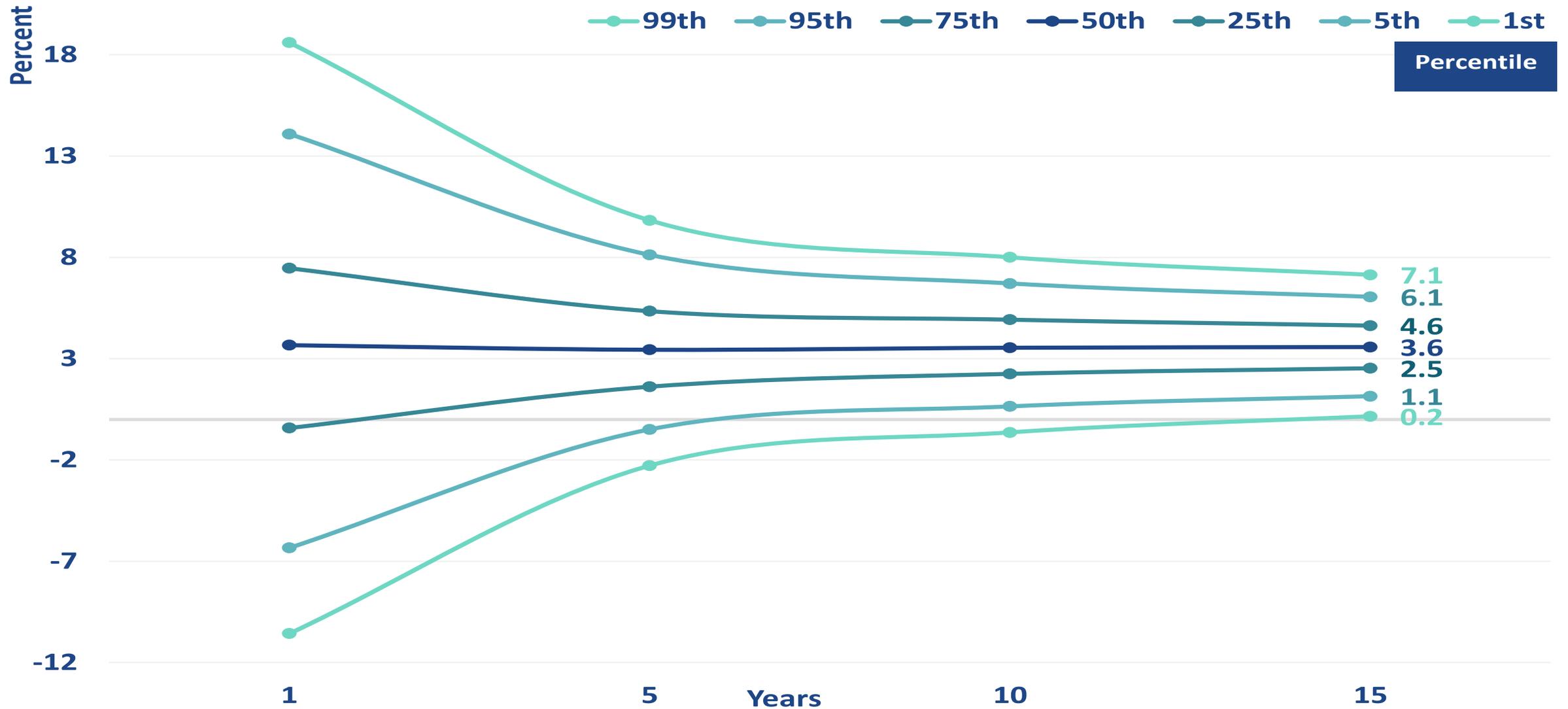
The WSIB will review this analysis at least every 4 years or more frequently if the Board believes there has been a fundamental change in the structure of the capital markets or the underlying cash flow or liability structure of the program

## RECOMMENDED PORTFOLIO RISK AND RETURN METRICS

	Allocation
Diversified Fixed Income	100.0%
Median 15-year return	3.6%
Standard Deviation	6.0%
Sharpe Ratio	0.62
Probability of achieving a 15-year return of 3.5 percent or greater	52.0%
Probability of experiencing a 1-year negative return	27.4%
Probability of experiencing a 5-year negative return	8.6%

- Milliman provided WSIB with two cashflows scenarios from the most recent 2020 report
- The more conservative scenario projected that approximately 45 percent of wage earners would opt out at the start of the program
- The other scenario projected that approximately 3 percent of wage earners would opt out
- Modeling of the recommended diversified fixed income portfolio projects the program will retain positive balances for at least 4 decades under both scenarios

# RECOMMENDED PORTFOLIO SIMULATED EXPECTED RETURN



## INVESTMENT POLICY COMPONENTS

- Purpose and Standard of Care
- Strategic Investment Objectives
- Investment Performance Objectives
- Investment Approach
  - Permissible Fixed Income Instruments
  - Sector Allocations
  - Duration
- Market Changes and Portfolio Rebalancing
- Risk Constraints
- Reporting
- Responsibilities and Policy Review



# INVESTMENT POLICY COMPONENTS

## Purpose and Standard of Care

- Establish an investment policy that allows for sufficient flexibility in the investment management process to capture investment opportunities, while providing parameters that will ensure prudence and care in the execution of the investment program
- The WSIB's standard of care was established by the Legislature and this section identifies relevant statutes

## Strategic Investment Objectives

- Maintain benefit adequacy
- Maintain fund solvency and sustainability
- Limit fluctuations in premium rates
- Subject to the above, achieve a maximum return at a prudent level of risk

## Investment Performance Objectives

- The program's fixed income investments are actively managed to meet or exceed the return of the Bloomberg U.S. Universal Index



# INVESTMENT POLICY COMPONENTS

## INVESTMENT APPROACH

### Permissible Fixed Income Investments

- U.S. Treasuries and government agencies
- Credit bonds including bank deposits
- Investment grade mortgage-backed securities
- Investment grade asset-backed securities
- Investment grade commercial mortgage-backed securities
- Non-dollar bonds

### Sector Allocations

- |   |        |
|---|--------|
| ■ U.S. Treasuries and government agencies | 10-45% |
| ■ Credit bonds                            | 10-80% |
| ■ Mortgage-backed securities              | 5-45%  |
| ■ Asset-backed securities                 | 0-10%  |
| ■ Commercial mortgage-backed securities   | 0-10%  |

### Duration

- No more than plus or minus 25 percent the duration of the Bloomberg U.S. Universal Index



## INVESTMENT POLICY COMPONENTS

### MARKET CHANGES AND PORTFOLIO REBALANCING

Identifies instances when normal policy constraints could place unintended burdens on the portfolio through no action of the portfolio manager

- Changes in market interest rates
- Portfolio rebalancing
- Rating downgrades

Prevents the forced sale or purchase of securities that may harm the portfolio or are not in the best interest of stakeholders in any of those three instances

- Allows the portfolio to remain outside policy guidelines for sector allocations, duration, or limits on below investment grade credit (or any combination of the three) until it can be rectified without harming the portfolio
- Requires notification to the Chief Investment Officer (CIO)



# INVESTMENT POLICY COMPONENTS

## RISK CONSTRAINTS

### Issuer Concentration Limits

- Exposure to any corporate issuer will not exceed 3 percent of the trust's market value (more restrictive concentration constraint than required by RCW 43.33A.140)
- Exposure to any one issuer with below investment grade rating limited to no more than 1 percent of the total portfolio's par value

### Sector Concentration Limits

- Total market value of below investment grade credit bonds not to exceed 15 percent of the market value of the fixed income portfolio
- Below investment grade mortgage-backed, asset-backed, or commercial mortgage-backed securities not to exceed 5 percent of the market value of the fixed income portfolio

Fixed income sector ranges and duration limit may be suspended by the CIO if liquidity in the public markets is impaired

- Suspension allows for the sale of Treasuries and reduces the likelihood of forced sales of non-Treasury securities at impaired prices



## INVESTMENT POLICY COMPONENTS

### Performance Review Guidelines and Reporting

- Performance reported quarterly to the WSIB Board
- Requires WSIB staff to meet at least annually with the Long-Term Services and Supports (LTSS) Trust Commission Investment Strategy Subcommittee (ISS) on the investment policy, earnings of the accounts, and related needs of the program

### Responsibilities and Policy Review

- Establishes responsibilities of the WSIB Board, Public Markets Committee, and staff
- Establishes timeline for periodic review of the policy by the WSIB Board



<b>May 2022</b>	<b>WSIB receives feedback from LTSS Trust Commission ISS on investment plan</b>
<b>June 2022</b>	<b>WSIB Board considers WA Cares investment recommendation and policy for approval</b>
<b>Third Quarter 2023</b>	<b>WSIB implements new investment strategy</b>

## CONTACT INFORMATION

### Web Site

- <http://www.sib.wa.gov>

### Address

- 2100 Evergreen Park Drive SW  
P.O. Box 40916  
Olympia, WA 98504

### Phone Number

- (360) 956-4600



The screenshot shows the Washington State Investment Board website. The header includes the logo and tagline "Investing with integrity, prudence, and skill" along with a search bar. The main navigation menu is divided into three sections: "INVESTING" (Investment Reports, Asset Classes, Asset Stewardship/ESG), "INFORMING" (Board & Committees, Policies, WSIB Staff, InfoBits & News, Contact Us), and "EMPLOYING". The central banner features the text "Delivering investment results for retirement plans & public trusts" over a background image of business silhouettes. The footer contains four promotional boxes: "POPULAR PICKS" (Investment Reports, Policies), "WSIB ESG REPORT" (with a leaf icon), "INFOBITS" (Asset Classes, Funds Managed, Investment Beliefs, & More), and "WSIB STORY" (with a bar chart icon).

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# NEW BUSINESS

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None

# NEXT ISS MEETING

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- When
  - May 16<sup>th</sup>
  - November 17<sup>th</sup>

# NEXT ISS MEETING – MAY 16<sup>th</sup>

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- Proposed Agenda
  - Investment Plan follow-up
  - Confirm date for next meeting, November 17<sup>th</sup>

# NEXT ISS MEETING – NOVEMBER 17<sup>th</sup>

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- Proposed Agenda
  - Investment Plan follow-up
  - Elect new ISS Chair for 2023
  - Set date for next meeting

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# PUBLIC COMMENT

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Questions about WA Cares Fund?

- Visit [wacaresfund.wa.gov](https://wacaresfund.wa.gov)
- Submit questions to: [wacaresfund@dshs.wa.gov](mailto:wacaresfund@dshs.wa.gov)

# WRAP UP

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- Action items review
- Adjourn

THANK YOU



**WA**  
**CARES**  
**FUND**

