WASHINGTON STATE
INVESTMENT BOARD

BOARD ADOPTED POLICIES

POLICY NUMBER 2.15.600

EFFECTIVE DATE: 4/20/06

TITLE: Pension Funding Stabilization Account

SUPERSEDES: N/A

BOARD ADOPTION: 4/20/06

APPROVED: Joseph A. Dear

PURPOSE:

This document outlines the investment policy and objectives for the Pension Funding Stabilization Account, for which investment responsibility is granted to the Washington State Investment Board (WSIB) in accordance with Engrossed Senate Substitute Bill (ESSB) 6896.

These guidelines allow for sufficient flexibility in the management process to capture investment opportunities, while providing parameters that ensure prudence and care in the execution of the investment program.

POLICY:

Standard of Care

Under RCW 43.33A.030, trusteeship of these assets is vested within the voting members of the Board. The Legislature has established a standard of care for investment of these funds in RCW 43.33A.140 which requires the judgment and care of a prudent investor in a like capacity. Additionally, the Board and its staff must comply with other state laws, such as the Ethics In Public Service Act, Chapter 42.52 RCW, as it makes its investment decisions and seeks to meet the investment objectives listed below.

Strategic Objectives

In accordance with RCW 43.33A.110, the portfolio is to be managed to achieve a maximum return at a prudent level of risk. The key consideration is identifying the prudent level of risk for the program considering the program's relatively short time horizon and the related timing of cash flows. Based on this requirement the order of the strategic objectives shall be:

1. Adequate liquidity to fund cash flows.
2. Safety of principal.
3. Maximize the return on the assets given the natural constraints that result from a short time horizon.
4. Invest in a manner that will not compromise confidence in the program.

Performance Objectives

The performance objectives are intended to provide the WSIB with a way to measure the success of this investment policy, the overall asset allocation strategy, and implementation of that strategy over time. The performance of the investment portfolios shall be judged relative to the strategic objectives. With the first four criteria met, the actual rates of return of the portfolios will be compared to the 91-day Treasury Bill.

Permissible Investments

The WSIB has the full power to invest, reinvest, manage, contract, sell, or exchange investment moneys in the pension funding stabilization account. The pension funding stabilization account shall be considered to be a public pension or retirement fund within the meaning of Article XXIX, section 1 of the State Constitution, for the purpose of determining eligible investments and deposits of the moneys in the account. ESSB 6896 specifies certain cash flow needs that mandate the following permissible investments:

Permissible Cash Investments

1. *Short-term Investment Funds (STIF)*

Permissible Fixed Income Investments

2. *U.S. Treasuries and Government Agencies*
3. *Credit Bonds* rated investment grade, as defined by Lehman Brothers Global Family of Fixed Income Indices.
4. *Asset-Backed Securities* rated investment grade, as defined by Lehman Brothers Global Family of Fixed Income Indices.

Portfolio Constraints

No corporate fixed income issue's cost shall exceed three percent of the fund's market value at the time of purchase, nor shall its market value exceed six percent of the fund's market value at any time (RCW 43.33A.140).

Asset Allocation

The asset allocation policy will be reviewed every three years or sooner if there are significant changes in the purpose or the laws governing the account. Market conditions, budget requirements and potential balances in the account are dynamic and fluid, not static. Therefore, WSIB staff will review the asset allocation of the investment portfolio each quarter with the Board. The portfolio will be rebalanced across asset classes when market values of the assets fall outside the policy ranges. Rebalancing will be accomplished first using any available cash flow, and then through the reallocation of assets across asset classes. The timing of the rebalancing will be based upon market opportunities and the consideration of transaction costs and, therefore, need not occur immediately.

	Maximum Range	Minimum Range
Fixed Income – with a maximum maturity of 3 years	50 percent	0 percent
Cash	100 percent	0 percent

The above policy ranges are long-term and may deviate in the short-term as a result of funding schedules and market movements.

Reporting

1. A management information system is to be used for reporting internally to management staff on the implementation of this policy.

2. An executive management report is to be provided to the Board quarterly showing market values and performance.

3. Annual reports on the asset allocation, income return, and trust status will be provided to major stakeholders.

RESPONSIBILITIES:

Board - Responsible for approving investment policies and monitoring the asset allocation mix.

Public Markets Committee - Responsible for reviewing the fixed income portfolio and recommending adjustment to style or objectives, or other investment policies for the fund. Responsible for reviewing staff investment management guidelines.

Staff - Responsible for recommending asset allocation and investment policies to the Board, implementing the policies, and reporting to the Committees and the Board.