



INVESTMENT BELIEFS DEFINED BENEFIT RETIREMENT FUNDS

EXECUTIVE SUMMARY

The following document sets out various investment beliefs of the WSIB. These beliefs pertain specifically to the defined benefit assets of the Commingled Trust Fund (CTF or Fund) and do not necessarily apply to the other types of assets under management.

MISSION

The mission of the Fund is to maximize returns at a prudent level of risk. The time horizon for this mission is long term (i.e., 15+ years).

SUSTAINABILITY: INVESTING FOR THE LONG RUN

The WSIB has a long investment horizon and is subject to complex and systemic global dynamics that unfold over time. These create risks and opportunities, including, but not limited to, environmental, social, and governance (ESG) considerations such as financial impacts resulting from climate change; improved economic outcomes from a more diverse, equitable, and inclusive work force; and governance practices that provide effective transparency and long-term sustainability.

RISK

The CTF should be compensated for the investment risks it takes.

Risk must be considered at the investment, asset class, and portfolio level.

Only some investment risks can be clearly defined and measured.

ASSET ALLOCATION

A broadly diversified portfolio is preferable to a liability-driven portfolio because it offers higher expected returns while also seeking benefit security over the long term.

The relative performance of asset classes and investment styles is generally subject to reversion to the mean, although timing such moves is challenging.

ACTIVE MANAGEMENT

Active management in an asset class is warranted if:

- The asset class, segment(s) of the asset class, or investment strategy is reasonably inefficient.
- There exist managers or partners with skill, demonstrated performance, and sufficient capacity to meet the WSIB's needs.
- The WSIB cost-effectively identifies and retains those skilled managers or partners.

While skilled private market managers may demonstrate persistence in performance, it is likely they will experience less successful periods; therefore, there is a need for diversification among investment partners.

Investment or asset class constraints and/or mandates will likely reduce investment returns.

We maintain objectivity and are attuned to mitigating behavioral biases in our decision-making process. An investment's ability to attract capital is not an indicator of its quality.

PERFORMANCE MEASUREMENT

The primary performance measure for the total Fund is performance relative to the Fund's passive policy benchmark.

The most relevant performance measure for a public market investment manager is performance relative to an appropriate passive market benchmark.

Currently available performance benchmarks for private markets have significant shortcomings whose limitations should be understood.

Expenses of the Fund are expenditures of assets of the trust and, therefore, should be carefully measured and managed.

ORGANIZATIONAL CORE COMPETENCIES

The WSIB must fulfill the mission of the Fund in a manner consistent with the highest fiduciary standards. In keeping with this belief, we abide by the following principles:

- Integrity is not negotiable.
- Prudence is best demonstrated by a well-documented and sound process.

The success of the investment program and the fulfillment of our mission do not depend on a single competency, but rather require multiple competencies, including:

- Clear, rational, and strongly held investment beliefs.
- Excellence in board governance.
- Highly skilled staff.
- Alignment of investment policies and practices with investment beliefs.
- Operational excellence and continuous improvement.
- Effective utilization of best-in-class managers, investment partners, and advisors.

APPENDIX - DETAILED INVESTMENT BELIEFS

MISSION

The mission of the Fund is to maximize returns at a prudent level of risk. The time horizon for this mission is long term (i.e., 15+ years).

- Our governing legislation sets out the objective of maximizing returns at a prudent level of risk. Maintaining a prudent level of risk must be considered in the context of benefit security, contribution volatility, and required cash flows. While WSIB's direct mandate is limited to the investment function, the success of the State's pension program, and a component of the determination of prudent level of risk, is also dependent on sound decisions in the areas of funding and plan design. Due to its in-depth expertise in pension and investment matters, it is incumbent upon the WSIB to provide objective, relevant information and analysis to policy makers on plan design and funding issues as appropriate.

That is why at the WSIB:

- The Board and staff regularly review investment performance against the most appropriate benchmarks available.
- We work closely with the Office of the State Actuary to understand the nature of the liabilities of the Fund, and we review cash flows daily.
- We strive to build effective working relationships with pension policy makers to enable them to make the most informed decisions possible regarding funding and plan design.
- We are committed to continually enhancing our risk management capabilities.

SUSTAINABILITY: INVESTING FOR THE LONG RUN

The WSIB has a long investment horizon and is subject to complex and systemic global dynamics that unfold over time. These create risks and opportunities, including, but not limited to, environmental, social, and governance (ESG) considerations such as financial impacts resulting from climate change; improved economic outcomes from a more diverse, equitable, and inclusive work force; and governance practices that provide effective transparency and long-term sustainability.

That is why at the WSIB:

- We consider all identifiable risks in our investment process and believe thoughtful consideration of these evolving global challenges is inseparable from long-term investment strategy and performance.
- We believe that our investment decisions will benefit from effective disclosure and analysis of identifiable ESG considerations, particularly by the companies and managers/partners in which we invest.
- The Sustainability Officer focuses on continued ESG integration in the investment process and, in partnership with the Corporate Governance Officer, engages with industry groups and peers to ensure thoughtful implementation.
- We seek to influence the industry toward decision making for the long term.
- We report progress and priorities regularly.

RISK

The CTF should be compensated for the investment risks it takes.

That is why at the WSIB:

- Staff considers both the expected return and the expected risk associated with every investment transaction we evaluate.
- To the extent possible, we consider both quantitative and qualitative information.

Risk must be considered at the investment, asset class, and portfolio level.

Our governing legislation mandates we consider investments not in isolation, but in the context of the investment as a part of an overall investment strategy within the Fund.

That is why at the WSIB:

- The Board takes an active role in managing risk. As an example, the Board made the conscious decision to reduce active risk in the management of domestic equities and increased the active risk in the management of fixed income, private equity, real estate, tangible assets, global equity, and emerging markets investments.
- We periodically undertake asset allocation studies to consider the portfolio impact of individual investment class decisions and related interactions.

Only some investment risks can be clearly defined and measured.

- Risk management is complex and often involves technical and practical difficulties in accurately defining, measuring, and managing investment risk. Some risks are qualitative in nature and, therefore, cannot be measured, only assessed. There are useful methods available to address risk management, and new and better methods are continually evolving.

That is why at the WSIB:

- Risk management is a top priority, and we are committed to identifying new risk management techniques as they develop.
- We are persistent in our efforts to enhance data quality and risk analytics platforms.

ASSET ALLOCATION

A broadly diversified portfolio is preferable to a liability-driven portfolio because it offers higher expected returns while also seeking benefit security over the long term.

- Capital market history has demonstrated that over long periods of time, a well-managed, diversified portfolio that includes public and private equities has outperformed a fixed income portfolio. Accordingly, it is reasonable to expect that a diversified portfolio will, over the long term, assure the security of benefits with lower contributions. A liability-driven portfolio may in theory minimize surplus volatility risk, but in practice such portfolios have significant limitations and shortfalls, especially relative to their costs.

That is why at the WSIB:

- The Fund's investments are not limited to fixed income, but also include public equity, real estate, private equity, and tangible assets.
- We construct portfolios with diversification across asset classes and within asset classes.
- The Board and the staff devote considerable time to developing and periodically reviewing the asset allocation policy of the Fund.
- Staff monitors and manages asset allocations daily.

The relative performance of asset classes and investment styles is generally subject to reversion to the mean, although timing such moves is challenging.

The performance of an asset class is somewhat random in the short run, but inevitably reverts to a normal state in the long run (e.g., 15+ years). Consequently, unusually high returns are inevitably followed eventually by unusually low returns. Care must be taken to not rely on past mean performance as a guide because fundamental changes may occur that result in a different mean in the future.

That is why at the WSIB:

- We adhere strictly to our rebalancing policies.
- We generally do not increase our investments in asset classes that have recently performed above their historical averages or reduce our investments in asset classes that have recently performed below their historical averages.
- Our Capital Market Assumptions take economic regimes into consideration.

ACTIVE MANAGEMENT

Active management in an asset class is warranted if:

- The asset class, segment(s) of the asset class, or investment strategy is reasonably inefficient.
- There exist managers or partners with skill, demonstrated performance, and sufficient capacity to meet the WSIB's needs.
- The WSIB cost-effectively identifies and retains those skilled managers or partners.

That is why at the WSIB:

- We are prepared to manage some asset classes actively and others passively, depending on the extent to which each asset class satisfies the conditions for successful active management.
- We do not actively manage small-cap U.S. equities as we believe there is insufficient manager capacity to warrant active management by a fund as large as the WSIB. It is difficult for a fund as large as the WSIB to identify enough skilled managers in this asset class with the capacity to generate sufficient net value added to have a meaningful impact on the Fund. There are a limited number of skilled managers in this asset class, and those in existence lack the capacity to accept enough assets of the Fund to make a meaningful impact on the total return of the Fund.
- We do not actively manage domestic large-cap equity as we believe it is highly, though not perfectly, efficient, and managers demonstrate limited positive persistence in performance. The resources that would otherwise be devoted to large-cap equity are instead deployed in more promising active strategies such as fixed income, private equity, real estate, and tangible assets.
- We avoid terminating managers which our research suggests are highly skilled but have recently underperformed, and we attempt to avoid hiring managers just after periods of significant outperformance.
- We actively manage U.S. private equity as we believe there exists highly skilled investment partners that may exploit market inefficiencies in a cost-effective manner, and the WSIB is able to identify and invest with these partners. Academic and industry research pertaining to U.S. private equity indicates that private market returns as a whole are comparable to U.S. public markets. The research also indicates, however, that difference in returns between top and bottom performers in U.S. private equity is greater than in U.S. public equity.

While skilled private market managers may demonstrate persistence in performance, it is likely they will experience less successful periods; therefore, there is a need for diversification among investment partners.

That is why at the WSIB:

- Portfolio construction and diversification are critical elements of private market investing.
- Staff and the Board invest a lot of time on annual plans and pacing models to allocate funds to partners in the most efficient and effective manner.
- When we evaluate investment opportunities within private markets, we evaluate more than just the performance of a single investment or even a single fund.

Investment or asset class constraints and/or mandates will likely reduce investment returns.

That is why at the WSIB:

- We limit the amount of restrictions we place on our managers to the extent we deem prudent while maintaining the ability for the WSIB to manage risk at the portfolio level.
- We strive to educate decision-makers and stakeholders of the consequences of such constraints and act quickly and decisively when we become aware that any such constraints are being considered.

We maintain objectivity and are attuned to mitigating behavioral biases in our decision-making process. An investment's ability to attract capital is not an indicator of its quality.

That is why at the WSIB:

- We devote significant effort and resources to procurement practices, due diligence activities, manager selection methods, monitoring activities, and exploration of new and emerging asset classes and segments.
- We encourage independent thinking in our decision-making process.
- We recognize the dangers of overconfidence and confirmation biases.
- We approach decision making with care and humility.
- We support intellectual curiosity as a core value.

PERFORMANCE MEASUREMENT

The primary performance measure for the total Fund is performance relative to the Fund's passive policy benchmark.

- Secondary measures, which are particularly useful to some stakeholders, are appropriate peer comparisons (though caution needs to be exercised).

That is why at the WSIB:

- We regularly measure and compare the Fund's investment performance relative to our passive policy benchmark.
- We periodically measure and compare the Fund's investment performance relative to peer comparisons.

The most relevant performance measure for a public market investment manager is performance relative to an appropriate passive market benchmark.

- Manager performance relative to other comparable managers and the manager's information ratio also provide useful tools for evaluation.

That is why at the WSIB:

- We regularly measure and compare each manager's performance relative to their assigned benchmark and that information is reported quarterly.
- We obtain and evaluate attribution analysis of our public market managers' performance.
- We evaluate the risk the manager is taking in managing the portfolio.

Currently available performance benchmarks for private markets have significant shortcomings whose limitations should be understood.

- Given the private nature of these asset classes, it is difficult to ascertain the accuracy and consistency of reported returns and to ensure that there are no significant biases in the returns. Accordingly, benchmark returns in private markets are simply not as meaningful or reliable as more established passive benchmarks that exist for public markets.

That is why at the WSIB:

- We use benchmarks for private market asset classes as simply one of a number of evaluation tools for assessing and understanding the performance of our private market investments and do not make definitive judgments solely on the basis of any single benchmark.
- We are continually searching for more appropriate benchmarks for assessing private market investments.
- We have integrated public market equivalent (PME) analysis into our monitoring of private equity performance.

Expenses of the Fund are expenditures of assets of the trust and, therefore, should be carefully measured and managed.

As fiduciaries, the Board and staff have a duty in law to protect the assets of the trust and to ensure all expenditures from the trust are reasonable and appropriate.

That is why at the WSIB:

- We regularly monitor and closely manage the costs for WSIB programs.
- We review annually all WSIB expenses against industry averages for all areas and always seek to be a low-cost/high-quality producer.

ORGANIZATIONAL CORE COMPETENCIES

The WSIB must fulfill the mission of the Fund in a manner consistent with the highest fiduciary standards. In keeping with this belief, we abide by the following principles:

- Integrity is not negotiable.
- Prudence is best demonstrated by a well-documented and sound process.

That is why at the WSIB:

- We undergo regularly scheduled ethics training.
- We have established and documented due diligence procedures.
- We use third-party advisors and experts as necessary to support prudent decision making.
- We invest in governance training.

The success of the investment program and the fulfillment of our mission do not depend on a single competency, but rather require multiple competencies, including:

- Clear, rational, and strongly held investment beliefs.
- Excellence in board governance.
- Highly skilled staff.
- Alignment of investment policies and practices with investment beliefs.
- Operational excellence and continuous improvement.
- Effective utilization of best-in-class managers, investment partners, and advisors.

That is why at the WSIB:

- We invest considerable resources in Board and staff education, human resource development and management, the development of investment policy, and due diligence with respect to managers, partners, and advisors.

INVESTMENT BELIEFS LABOR & INDUSTRIES' FUNDS

EXECUTIVE SUMMARY

The following document sets out various investment beliefs of the WSIB. These beliefs pertain specifically to the investment funds managed on behalf of the Department of Labor and Industries (L&I) and do not necessarily apply to the other types of assets under management.

MISSION

The mission of the L&I portfolios is to invest for a balance between risk and maximizing investment return based on input from L&I. Rate stability and solvency are the primary goals of the funds followed by lower costs to the participants. The time horizon for this mission is short-term (i.e., 3 to 5 years).

RISK

Only some investment risks can be clearly defined and measured at the present time (or ever in some cases).

The Department of Labor & Industries portfolio returns should be commensurate with the investment risks it takes. It is important to note that adding more risk does not guarantee more investment return.

Risk must be considered at the investment, asset class, and portfolio level and is influenced by the amount of capital the fund has in the contingency reserve over time.

ASSET ALLOCATION

Asset-Liability management will be utilized to lower risk and help limit fluctuations in insurance premium rates and in the contingency reserve while maintaining diversification.

The relative performance of asset classes and investment styles is generally subject to reversion to the mean, although timing such moves is challenging.

ACTIVE MANAGEMENT

Active management in an asset class is warranted if:

- The L&I investment portfolios have special needs;
- There exist managers or partners with skill, persistent performance, and sufficient capacity to meet the WSIB's needs; and
- The WSIB is able to cost-effectively identify and retain those skilled managers or partners.

Investment or asset class constraints and/or mandates reduce investment returns.

Most good investment opportunities attract investment capital and so do many poor investment opportunities.



PERFORMANCE MEASUREMENT

The primary performance measure for the L&I portfolios is performance relative to the portfolios' Comparable Market Index (CMI). It is important to note that the CMIs are not investment benchmarks, rather they are hypothetical portfolios with characteristics similar to the funds being managed.

The most relevant performance measure for a public market investment manager is performance relative to an appropriate passive market benchmark.

Expenses of the portfolios are expenditures of assets of the trust and, therefore, should be carefully measured and managed.

ORGANIZATIONAL CORE COMPETENCIES

The WSIB must fulfill the mission of the L&I portfolios in a manner consistent with the highest fiduciary standards. In keeping with this belief, we abide by the following principles:

- Integrity is not negotiable; and
- Prudence is best demonstrated by a well documented and sound process.

The success of the investment program and the fulfillment of our mission does not depend on a single competency, but rather requires multiple competencies, including:

- Clear, rational, and strongly held investment beliefs;
- Excellence in board governance;
- Highly skilled staff;
- Alignment of investment policies and practices with investment beliefs;
- Operational excellence and continuous improvement; and
- Effective utilization of best-in-class managers, investment partners, and advisors.