

POLICY NUMBER: 2.05.600**EFFECTIVE DATE:** 4/18/24**TITLE:** Economically Targeted Investments**SUPERSEDES:** 12/16/21**BOARD ADOPTION:** 4/18/24**REVIEWED:**

PURPOSE

This document sets forth the policy of the Washington State Investment Board (WSIB) with respect to Economically Targeted Investments (ETI), defined for this purpose as investments having the primary objective of investment return to pension trust fund assets and the possible collateral objective of assisting the regional economy and the economic well-being of Washington, its localities, and its residents.

BACKGROUND

From time to time, the pension trust funds managed by the Board are looked to as a source of potential stimulus for the economy of Washington. In 1982, the Legislature passed House Concurrent Resolution 37 urging the Board to emphasize in-state investment. Since 2003, the Legislature has pursued ways to assist the Board in focusing on in-state investments. The Board believes Washington is an excellent place in which to invest a portion of the trust funds under management by the Board. This policy is designed to communicate the role and responsibilities of the Board relative to such initiatives.

POLICY

The Board has a fiduciary duty to invest and manage the entrusted funds in a manner consistent with statutes, regulations, Board policies, and the highest standard of professional conduct for the exclusive benefit of fund beneficiaries. The Board evaluates all investments in accordance with RCW 43.33A.110, which mandates that "the board shall establish investment policies and procedures designed exclusively to maximize return at a prudent level of risk." This statutory objective applies in conjunction with RCW 43.33A.140, which provides the standard of care for investments. These mandates apply to the evaluation of all investment opportunities, including ETIs.

Investment Approach

The Board believes that Washington remains an excellent place in which to invest a portion of the trust funds under management by the Board. The Board has invested a significant amount of capital in Washington-based investments through its real estate, tangible assets, private equity, fixed income, and public equity investment programs. The Board will continue to seek quality investment opportunities within the state in accordance with its established policies, statutory mandates, and fiduciary duty. It is the Board's intent to earn competitive risk-adjusted returns regardless of where the investment opportunity resides. The retirement funds' exposure to the Washington economy, inclusive of investments in ETIs, will generally be in line with the state's representation in the eligible investment universe and will be consistent with the Board's fiduciary obligations and independent exercise of discretion.

Accordingly, the Board will consider for investment only those ETIs that are commensurate, on a risk-adjusted financial basis, to alternatively available investments.

The decision to invest in an ETI in consideration of its collateral benefits shall be made only after the opportunity is deemed acceptable exclusively on its economic investment merits.

The collateral benefits of an ETI shall not be considered part of the return of the investment or a part of risk reduction.

The ETIs shall be made in accordance with the Board's approved asset allocation policies, included within existing asset categories, and in conformance with all of the laws, policies, and procedures governing the Board.

The ETIs shall receive the proper level of due diligence and evaluation consistent with all other investment opportunities evaluated of similar type or classification.

If there is no expected diminution of investment returns or uncompensated risk in comparison to alternatively available investments, the Board may favor those investments that have a direct benefit to the economy of the state. However, the Board will only consider the secondary objective of promoting economic growth and well-being in the state when not in conflict with its statutory mandate to maximize return at a prudent level of risk and its duties to the fund beneficiaries of loyalty, care, skill, prudence, diligence, and diversification. Subject to staffing capacity, the Board will establish a staff function to facilitate the exchange of information between its private equity general partners and appropriate parties with knowledge of quality, in-state investment opportunities.

Reporting

Staff will request that the Board's private equity general partners provide, on an annual basis, the number of Washington-based investments evaluated during the prior calendar year, including the ultimate investment decision. On an annual basis, staff will provide to the Board, its beneficiaries, the Legislature, and the Governor a summary of the Board's activities regarding the ETI policy and Washington-based investment activity, including Washington-based opportunities selected for investment.

RESPONSIBILITIES

WSIB

The Board is responsible for approving the ETI policy and reviewing the ETI activity on an annual basis.

Staff

Staff is responsible for facilitating the exchange of information between the Board's private equity general partners and appropriate parties with knowledge of quality, in-state investment opportunities; requesting the Board's private equity general partners to provide, on an annual basis, the number of Washington-based opportunities evaluated during the prior calendar year; and preparing and providing the annual report of ETI activities for the Board, beneficiaries, the Legislature, and the Governor.

POLICY REVIEW

The Board shall review this policy at least once every three (3) years to ensure that it remains relevant and appropriate.

Policy Adopted 5/10/82

Revised 10/25/01, Supersedes WSIB Policy 2.15.300

Revised 11/21/01

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