POLICY NUMBER: 2.10.050	**EFFECTIVE DATE:** 4/21/2022
TITLE: Retirement CTF Asset Allocation	**SUPERSEDES:** 10/18/2021
BOARD ADOPTION: 4/21/2022	**REVIEWED:**

PURPOSE

This document is the asset allocation policy and performance objectives for the Washington State Investment Board (WSIB) Retirement Commingled Trust Fund (CTF) and supersedes any prior Board-adopted policies.

The 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 CTF. Therefore, the apportionment and management of the asset allocation is the foundation of the investment program and crucial to its success. The 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.

BACKGROUND

RCW 43.33A.170 authorizes the commingling of funds at the discretion of the WSIB. As summarized in WSIB Policy 2.10.010, the WSIB invests defined benefit, defined contribution, and deferred compensation assets in the CTF, with the major portion of the fund comprised of defined benefit assets, which are long-term in nature. When viewed in aggregate, the defined benefit plans are at a mature stage where monthly benefit payments exceed contributions. The defined contribution and deferred compensation programs allow participants to transfer their assets to or from other investment options.

POLICY

Standard of Care

Under Revised Code of Washington (RCW) 43.33A.030, trusteeship of funds under the authority of the WSIB is vested in the voting members of the Board. The Legislature has established a standard of care for investment of these funds in RCW 43.33A.140. 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.

Asset Allocation Objectives & Constraints

The WSIB's mandate, as stated in the Revised Code of Washington (RCW) 43.33A.110, is to maximize return at a prudent level of risk. The allocation process and decision making defines the expected return and level of risk of the portfolio. The decision process is a multi-level process incorporating the following:

1. The inclusion of multiple asset classes with varying risks and correlations.
2. A review of the liabilities of the various retirement plans.
3. The Board's comfort level with risk and the reward (return) associated with the risk.

The asset allocation for the CTF is formally reviewed at least every 4 years. The allocation policy will be reviewed more frequently if the Board believes there has been a fundamental change in the structure of the capital markets or in the underlying cash flow or liability structure of the retirement systems.

The asset mix is reviewed quarterly by both staff and the Board. The Board delegates authority to the Chief Executive Officer to rebalance the asset mix as needed. The staff procedure for rebalancing is delineated below.

Asset Allocation
The asset allocation target is established by the Board and must be considered at all times when making investment decisions.

The range around the allocation targets is intended to keep the actual allocation close to the target while minimizing the transaction costs which result from rebalancing. The asset mix may deviate from the target as shown below. Deviations outside the range may require rebalancing back to the target.

Asset Class	Target	Policy Range	Asset Class Range
Fixed Income	19%	15 - 23%	+ or - 4%
Tangible Assets	8%	5 - 11%	+ or - 3%*
Real Estate	18%	15 - 21%	+ or - 3%*
Public Equity	30%	25 - 35%	+ or - 5%
Private Equity	25%	20 - 30%	+ or - 5%**
Innovation Portfolio	0%	0 - 5%	+ 5%
Cash	0%	0 - 3%	+ 3%

Notes
* If Real Estate or Tangible Assets, due to timing and/or illiquidity, is above or below its target, Fixed Income will be used to offset the imbalance.

** If Private Equity, due to timing and/or illiquidity, is above or below its target, Public Equity will be used to offset the imbalance.

While it is the Board's goal to reach the target (optimal portfolio) as quickly as possible, because of the illiquidity and time-lagging nature of the Real Estate and Tangible Assets classes, it is assumed that it will take time to achieve the target. The following table reflects the projected allocations for the coming years:

	Calendar Year-End Projected Targets				Range
Asset Class	2022	2023	2024	2025	
Fixed Income	20.9%	20.3%	19.6%	19.0%	+ or – 4%
Tangible Assets	6.1%	6.7%	7.4%	8.0%	+ or – 3%
Real Estate	18.0%	18.0%	18.0%	18.0%	+ or – 3%
Public Equity	29.0%	29.5%	29.7%	30.0%	+ or – 5%
Private Equity	26.0%	25.5%	25.3%	25.0%	+ or – 5%

For asset allocation monitoring purposes, the initial calendar year-end implementation targets become effective upon Board adoption, and subsequent year-end implementation targets become effective at the beginning of the specified calendar year.

Recommendations for specific investments or investment styles within the asset classes' allocation is an investment structure decision and will be the responsibility of the appropriate

WSIB Committee. However, the Committee is expected to maintain the return and risk posture of the asset class.

Rebalancing Procedure
The Board delegates authority to the Chief Executive Officer to rebalance the CTF asset allocation within the procedures established in WSIB Policy 3.10.100.

In cases of major rebalancings, the Board authorizes the Chief Executive Officer to utilize futures, forward contracts, and options, in order to maintain exposure in asset classes and to reduce transaction costs that would otherwise be incurred by the buying and selling of actual securities. Major rebalancing can occur to bring asset classes within their target ranges or when the Board is transitioning managers. Staff may hire a transition manager to manage transitions and assist with rebalancing.

Idle cash will be allocated to asset classes and investment managers based on target allocations. The cash balance may deviate outside its target ranges in anticipation of large cash transfers (e.g., Plan 3 transfers). Staff may hire an overlay manager to manage the effect of cash drag.

Assets will be rebalanced across asset classes, as appropriate, when market values of assets fall outside policy ranges. Rebalancing will be accomplished first using normal cash flows and second through reallocation of assets across asset classes. The timing of the rebalancing will be based on market opportunities and the consideration of transaction costs and, therefore, need not occur immediately.

The rebalancing of public securities will be accomplished first using normal cash flows and second through reallocation of assets within asset classes. This reallocation will be based on individual asset class policies or upon recommendations by the appropriate Committee.

Because of appraisal valuation and illiquid market nature of appraised assets, exceeding the maximum policy range allocation will trigger a conscious review by the Board and the appropriate asset class Committee rather than automatic rebalancing.

The asset class policy ranges are long term and may deviate in the short term as a result of funding schedules, interim market movements, and market impact costs of implementation.

Performance Return Objective
The CTF's return objective is to exceed the return of the following measures.

- Passive Benchmark
  The objective is to exceed the return of the custom benchmark consisting of public market indices weighted according to asset allocation targets. The long-term or target passive benchmark consists of the following public market indices:
  - 69 percent MSCI All Country World IMI Index Net with U. S. Gross
  - 31 percent Bloomberg Barclays U.S. Universal Index
- Implementation Value Added (IVA)
  The objective is to exceed the return of the custom benchmark consisting of publicly-available indices, as defined in each asset class's policy, weighted according to the asset allocation targets. This IVA benchmark differs from the passive benchmark as it is not an investable benchmark due to the uninvestable premium added to the tangible assets and private equity passive benchmarks.

Reporting
Staff will report the actual asset allocation to the Board quarterly.

RESPONSIBILITIES

Washington State Investment Board

The Washington State Investment Board is responsible for approving CTF asset allocation and investment policy. It is also responsible for monitoring that the allocations are maintained within target ranges.

Public and Private Markets Committees

The Public and Private Markets Committees are responsible for structural investments within the asset allocation policy (and appropriate asset class policies) and assisting with allocation management as indicated above.

Staff

Staff is responsible for reviewing the asset allocation at least monthly, monitoring future anticipated cash flow, and rebalancing to the targets. Staff is also responsible for implementing and maintaining the policy, reporting to the Board, and recommending to the Board enhancements and changes to the policy.

POLICY REVIEW

The Board shall review this policy at least once every four (4) years to ensure that it remains relevant and appropriate.

Policy Adopted 6/29/81
Revised 9/15/92
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Revised 5/20/93 (Supersedes Policies 2.10.200; 2.10.300; and, 2.10.500)
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