

**POLICY NUMBER:** 2.10.900**EFFECTIVE DATE:** 12/16/21**TITLE:** Tangible Assets Investment Policy**SUPERSEDES:** 12/13/18**BOARD ADOPTION:** 12/16/21**REVIEWED:**

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**PURPOSE**

This policy sets out the general objectives and guidelines for the Washington State Investment Board's (WSIB) tangible assets investment program. This policy applies to the existing WSIB tangible assets portfolio, as well as new investments.

**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 and seeks to meet the investment objectives below.

**Objectives and Goals**

The objectives and goals of the tangible assets investment program are as follows:

1. The primary goal of the WSIB tangible assets portfolio is to generate a long-term, predictable, and persistent income stream.
2. The secondary goals of the WSIB tangible assets portfolio are to generate appreciation at least commensurate with inflation through value-adding activities or by taking advantage of market movements and to provide diversification benefits to the overall asset allocation of the Commingled Trust Fund.
3. Additional strategies will be pursued when they are likely to enhance the risk-adjusted returns of the portfolio.
4. The WSIB will seek to invest with partners possessing irrefutable integrity and exceptional investment skills and who promote outstanding strategies.
5. Staff will work to build strong relationships with WSIB investment partners. Our approach will be positive, proactive, and interactive. Our intent is for our investment partners to view WSIB as a *partner*, not simply as a funding source.
6. Staff will strive to employ strong alignments of interest between the WSIB and its tangible asset partners whenever possible.
7. Staff will actively manage the portfolio to reduce WSIB's exposure to chronically underperforming (on a risk-adjusted basis) partnerships, strategies, and investment structures where no turnaround can reasonably be expected.

**Return Benchmark**

The WSIB tangible assets program will seek to produce returns in excess of inflation (measured as the U.S. Consumer Price Index) plus 400 basis points (4 percent) over a long-term investment horizon, defined as at least 5 years. Shorter time periods do not provide

appropriate comparative data. For inclusion in the CTF performance report, the benchmark will be lagged one calendar quarter in line with the valuation lag.

### **Targeted Investments**

The WSIB may invest in any tangible asset investment opportunity demonstrating acceptable risk-adjusted returns, provided such opportunities are not prohibited by Board policy or by law. The WSIB will seek to establish a prudent and disciplined approach to achieving a well-diversified portfolio of tangible asset investments targeting appropriate risk-adjusted returns for the asset class. Staff will make best efforts to obtain co-investment rights from WSIB investment partners in order to improve portfolio diversification.

Staff will prudently seek to diversify the portfolio, cognizant of each investment's strategy and business plan. Investments will not be made solely to achieve sector or geographic diversification. Diversification within the tangible asset program may be represented by, but not limited to, the following:

1. Industry: Agriculture, Minerals and Mining, Energy, Society Essentials, and other sectors consistent with the goals of the asset class that are not part of other asset classes as defined by WSIB policy.
2. Segment: Upstream and Midstream hard assets.
3. Capital structure: any equity, debt, or structured financial position, either private or public.
4. Life cycle: mature ("brownfield"), expansion, or ground-up ("greenfield") development.
5. Geographic: diversified by regions both domestically and internationally.
6. Partner concentration: attention to the amount that the WSIB commits to any one partnership or entity in which it invests.

### **Valuation Policy**

The WSIB maintains a policy of mark-to-market valuation of its tangible asset holdings. In general, this is completed by the partner utilizing generally-accepted valuation processes. In cases where the partner may be compensated based on the valuation, third-party professionals are engaged to complete valuations independent of the management team.

### **Implementation and Due Diligence**

The actual implementation and ongoing oversight of tangible asset investments by staff is critical to the success of the program and, as a result, a major focus of staff time and energy. To assure careful attention to these matters, staff has implemented an investment policy highlighting procedures for the implementation of the program as well as ongoing due diligence.

Commitments to tangible assets investments must be approved by the Board following the recommendation of the Public or Private Markets Committee, with the following exceptions:

1. The Chief Executive Officer is authorized to execute investment transactions, consistent with policies and directives adopted by the Board, with general partners and entities that have an existing relationship with the Board. Executed transactions will be reported to the Board at its next regularly scheduled meeting.
2. The Chief Executive Officer, subject to the limitations outlined below, shall have authority to invest in the Tangible Assets Co-investment Program, through which the WSIB will undertake tangible assets co-investments with its existing tangible assets partners, up to the amount authorized by the Board:

- A. No leverage will be applied at the Program level; underlying deal-level leverage will be targeted in accordance with the terms of the partnership associated with the transaction.
  - B. Transactions will be consistent with the strategy and return expectations for the associated partnership leading the transaction.
  - C. Individual investment decisions will be at staff discretion with an affirmative recommendation by a consultant from the consultant pool and approval of the Chief Investment Officer and Chief Executive Officer.
  - D. Investments approved through the above process will be reported to the Board at its next regularly scheduled meeting.
3. Staff, subject to the limitations outlined below, shall have authority to invest in the Tangible Assets Public Securities Program, through which the WSIB will undertake investments in publicly traded securities up to the amount authorized by the Board:
- A. No leverage will be applied to Tangible Assets Public Securities Program investments.
  - B. Transactions will be consistent with the strategy and return expectations outlined in this policy.
  - C. Tangible Assets Public Securities Program investments will be reported to the Board annually.

## **ROLES AND RESPONSIBILITIES**

### **Board**

- 1. Monitor the performance of the overall tangible asset investment program.
- 2. Approve Board tangible assets policies.
- 3. Approve the Tangible Assets Annual Plan.
- 4. Approve or delegate pursuant to Board-adopted Delegation of Authority policies.
- 5. Select qualified tangible asset consultants.
- 6. Approve commitments to new tangible asset investments and material changes to existing investment partnerships, except as delegated by the Board.

### **Private Markets Committee**

- 1. Recommend to the Board commitments to new tangible asset investment partnerships and material changes to existing investment partnerships, except as delegated by the Board.
- 2. Recommend to the Board changes to Board tangible assets policies.
- 3. Provide oversight and review of the tangible assets investment program in order to report and provide recommendations to the full Board.

### **Public Markets Committee**

- 1. Recommend to the Board new commitments and material changes to the Tangible Assets Public Securities Program, except as delegated by the Board.
- 2. Provide oversight and review of the Tangible Assets Public Securities Program in order to report and provide recommendations to the full Board.

### **Staff**

- 1. Implement Board-adopted tangible assets policies.
- 2. Develop portfolio strategies.
- 3. Source, underwrite, and present new relationship investment proposals for the Public or Private Markets Committee and Board approval.

4. Perform due diligence on investment transactions for investment opportunities with general partners and entities that have an existing relationship with the Board.
5. Ensure compliance of all contractual partnership obligations.
6. In accordance with the limitations outlined in this policy, undertake co-investment opportunities with existing tangible assets partners through the Tangible Assets Co-investment Program.
7. In accordance with the limitations outlined in this policy, invest in public securities investment opportunities through the Tangible Assets Public Securities Program.
8. Represent the Board with respect to all matters related to Board-approved tangible assets investments.

#### **Tangible Assets Consultants**

1. Provide the Board, Private Markets Committee, and staff with written opinions regarding new investment proposals sourced and underwritten by staff and make an oral presentation to the Private Markets Committee regarding the same.
2. Provide the Chief Executive Officer and staff with written opinions regarding investment proposals sourced and underwritten by staff for investment opportunities with general partners, entities, and other relationships previously approved by the Board.
3. Conduct specialized research as directed by staff.
4. Provide strategic advice to the Board, Private Markets Committee, and staff as requested regarding the tangible asset portfolio.

#### **Back Office Service Provider**

1. Provide quarterly portfolio performance measurement reports.

#### **POLICY REVIEW**

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

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