

POLICY NUMBER: 2.35.400**EFFECTIVE DATE:** 11/17/22**TITLE:** Developmental Disabilities
Endowment Trust Fund**SUPERSEDES:** 9/20/18**BOARD ADOPTION:** 11/17/22**REVIEWED:**

PURPOSE

This document is the investment policy for the Developmental Disabilities Endowment Trust Fund (DDEF) and supersedes any prior board-adopted policies.

The policy allows 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.

BACKGROUND

The DDEF was created by the Legislature in 1999 and placed under the trusteeship and investment management of the Washington State Investment Board (WSIB) through Revised Code of Washington (RCW) 43.330.432.

The DDEF is composed of two distinct pools of assets. The first is money contributed by the state to be used as matching funds for qualified participants. The funds stay within this pool until disbursed to participants. The second pool is composed of private assets deposited by private citizens. The pool of private assets has not been granted federal tax exempt status, and beneficiaries are taxed accordingly by DDEF's recordkeeper. This limits the WSIB's ability to invest the pool of private assets in commingled vehicles commonly used for other funds managed by the Board.

POLICY**Standard of Care**

Under 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 strategic investment objectives listed below.

Strategic Investment Objectives

In accordance with RCW 43.33A.110, the portfolio is managed to achieve a maximum return at a prudent level of risk. The key determinant is identification of the prudent level of risk for the program relative to the needs of the DDEF governing board and its participants. Based on this requirement, the order of the objectives shall be:

1. Maximize return at a prudent level of risk based on identified investment time horizons.
2. Ensure sufficient income is available to fund the expected needs.
3. Invest in a manner that will not compromise public confidence in the program.

Investment Performance Objectives

Performance of the investment portfolio shall be judged relative to its investment objectives, risk constraint standards, and investment approach. The performance objectives are intended to provide the WSIB, DDETF governing board, and individual participants with benchmarks to measure the performance of the investment policy.

State Fund:

1. Short term: earn a rate of return that exceeds inflation with a bias toward preservation of the corpus.
2. Long term: earn a rate of return that exceeds inflation.

Private Fund:

1. Generate a return that generally tracks the benchmark for the selected investment vehicle.

Risk Constraint Standards

1. All assets under management by the WSIB are to be invested to maximize return at a prudent level of risk in accordance with the requirements of RCW 43.33A.110 and RCW 43.33A.140.
2. In accordance with RCW 43.33A.140, no corporate fixed income issue's or common stock holding's cost shall exceed 3 percent of the fund's market value at the time of purchase, nor shall its market value exceed 6 percent of the fund's market value at any time.
3. Assets shall be diversified at a prudent level to moderate fluctuations in the market value of the fund.

Asset Allocation

The asset allocation will be reviewed every four (4) years or sooner if there are significant changes to the program. WSIB staff will meet at least annually with the DDETF governing board to determine if there have been any significant changes in funding levels or the objectives of the program and to review the investment portfolio performance.

The Board has delegated to the Chief Executive Officer the authority to rebalance the asset allocation to fall within Board-adopted ranges or targets. Assets will be rebalanced across asset classes when market values of the assets fall outside the policy ranges. Rebalancing will be accomplished first using normal cash flow and second 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.

State Fund

	Target	Range*
Public Equity	35 percent	32 – 38 percent
Fixed Income	65 percent	62 – 68 percent
Cash	0 percent	0 – 5 percent

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

Public Equity

The public equity component of the state fund is invested passively to track the return of a broad global equity benchmark. The benchmark for the public equity component is the MSCI All Country World Investable Market Index (MSCI ACWI IMI) with U.S. Gross.

Fixed Income

The fixed income portion of the state fund is invested in the WSIB Bond Market Fund. The investment policy is defined in WSIB Policy 2.14.200. The benchmark for the Bond Market Fund is the Bloomberg U.S. Intermediate Credit Index.

Cash

The cash component of the state fund is invested in a portfolio of short-term securities issued or guaranteed by the U.S. government. The benchmark for the cash component is the 90-day Treasury bill return.

Private Fund

The private fund is invested with a prudent level of risk based on the assumed average trust's time horizon. Since these funds are taxable, they cannot be invested in the majority of the commingled investment funds currently used by the WSIB. The WSIB will invest the fund in a mutual fund with low turnover, to minimize taxable events, and low fees, to minimize costs. The asset allocation is targeted to a beneficiary with a long time horizon and moderate to high risk tolerance. A minimal cash level will be held to fund beneficiary payments.

	Target
Public Equity	60 percent
Fixed Income	40 percent

The WSIB will invest the private fund in a tax-eligible fund(s) that is expected, over the long run, to match the above target. The private fund is currently invested in the Vanguard Balanced Index Fund Institutional Shares. The assigned benchmark for the fund is a blend of 60 percent CRSP U.S. Total Market Index and 40 percent Bloomberg U.S. Aggregate Float Adjusted Index.

PERFORMANCE REVIEW GUIDELINES AND REPORTING

Performance is measured by the custodian bank and reported quarterly by WSIB staff to the Board. WSIB staff will meet at least annually with the DDEF governing board to review the investment portfolio and the financial status and goals of the program.

RESPONSIBILITIES

Washington State Investment Board

The Board is responsible for approving the investment policy and setting the investment objectives, risk standards, and asset allocation. The Board is also responsible for reviewing the performance of the fund.

Public Markets Committee

The Committee is responsible for reviewing the structure and strategy of the funds and recommending revisions to the Board.

WSIB Staff

Staff is responsible for recommending enhancements and changes to the investment policy to the Public Markets Committee as well as implementing policy, managing the assets, rebalancing the asset allocation, and reporting performance and policy compliance to the Board and the DDEF governing board. Staff is also responsible for recommending the strategic asset allocation to the Board.

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 4/20/00
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