

POLICY NUMBER: 2.35.500**EFFECTIVE DATE:** 11/17/22**TITLE:** Washington State Opportunity
Scholarship Fund**SUPERSEDES:** 4/16/20**BOARD ADOPTION:** 11/17/22**REVIEWED:**

PURPOSE

This document is the investment policy for the Washington State Opportunity Scholarship (WSOS) Fund 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 WSOS Fund was created by the Washington State Legislature in 2011 to encourage student participation in high employer-demand programs of study. The investment responsibility for the WSOS Fund is granted to the Washington State Investment Board (WSIB) in accordance with Revised Code of Washington (RCW) 28B.145.090.

The WSOS Fund is composed of four distinct pools of assets, each containing private funds and state matching funds (RCW 28B.145.040): three scholarship accounts (Scholarship, Student Support Pathways, and Advanced Degrees Pathways) and one endowment account. The primary distinction between the two account types is that scholarships may be paid out of both principal and earnings from the scholarship accounts, while scholarships that are eligible to be paid out of the endowment account, must be paid out of investment earnings.

POLICY**Standard of Care**

Under RCW 43.33A.030, trusteeship of funds under the authority of the WSIB is vested within 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 identifying the prudent level of risk relative to the needs of the WSOS Board. Based on this requirement, the order of the objectives shall be:

1. Maintain the financial stability of the program.
2. Ensure sufficient assets are available to fund the scholarship goals of the program over a 10-year time horizon.

3. Subject to (1) and (2) above, manage the assets to achieve a maximum return at a prudent level of risk.
4. Invest in a manner that will not compromise confidence in the program.

Investment Performance Objectives

Performance of the investment portfolio shall be judged relative to the investment objectives, the risk constraint standards, and the investment approach. The performance objectives are intended to provide the WSIB and the WSOS Board with benchmarks to measure the investment policy.

The WSOS Fund has a relative performance objective for the long-term investment horizon: relative to asset allocation targets, generate a return equal to, or in excess of, the passive benchmark portfolio. The benchmarks for the scholarship and endowment accounts are a custom blend of the benchmarks for the underlying asset classes.

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, subject to the unique risk tolerances of the WSOS program.
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 mix of the fund 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 WSOS Board or Finance and Investment Committee to review the investment portfolios and the financial status and goals of the program.

The WSIB 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 Match Funds

The state provides matching funds to WSOS to fund scholarships in partnership with private corporations. Investment eligibility of the matching funds is determined by the state constitution and laws. If such funds become eligible for investment in corporate fixed income and equity securities, they will be invested with the asset allocation identified in the "Private Funds" section of this policy. The benchmark for the state funds is the 90-day Treasury bill return.

Permissible Investments

1. Government agencies and U.S. Treasuries.

2. Short-term investment funds (STIF) that invest strictly in U.S. government or government agency instruments, including repurchase agreements for U.S. government and agency instruments.
3. Cash collateral for security lending and collateral for repurchase agreements is restricted to U.S. government and government agency securities.

Private Funds

Private funds are composed of donations from corporations and individuals, are not state funds, and are not subject to state constitution investment eligibility guidelines.

Asset Class Structure

The WSIB establishes asset class investment policy with wide guidelines for staff to move investment priorities within an asset class in order to achieve the fund’s overall objectives.

Public Equity

The public equity component of the accounts 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 accounts 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 accounts 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.

Scholarship Account

State Match

ASSET ALLOCATION	Target	Range
Cash	100%	100%

Private

ASSET ALLOCATION	Target	Range*
Public Equity	30%	25% - 35%
Fixed Income	70%	65% - 75%
Cash	0%	0% - 5%

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

Student Support Pathways Account

State Match

ASSET ALLOCATION	Target	Range
Cash	100%	100%

Private

ASSET ALLOCATION	Target	Range*
Public Equity	30%	25% - 35%
Fixed Income	70%	65% - 75%
Cash	0%	0% - 5%

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

Advanced Degrees Pathways Account

State Match

ASSET ALLOCATION	Target	Range
Cash	100%	100%

Private

ASSET ALLOCATION	Target	Range
Public Equity	30%	25% - 35%
Fixed Income	70%	65% - 75%
Cash	0%	0% - 5%

Endowment Account

State Match

ASSET ALLOCATION	Target	Range
Cash	100%	100%

Private

ASSET ALLOCATION	Target	Range*
Public Equity	80%	75% - 85%
Fixed Income	20%	15% - 25%
Cash	0%	0% - 5%

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

PERFORMANCE REVIEW GUIDELINES AND REPORTING

Performance is measured by the custodian bank and reported in writing quarterly by WSIB staff to the Board. WSIB staff will meet at least annually with the WSOS Finance and Investment Committee 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 performance of the fund.

Public Markets Committee

The Committee is responsible for reviewing the structure and strategy of the fund and recommending any revisions to the WSIB 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 WSOS Board or Finance and Investment Committee. Staff is also responsible for recommending 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.

Original Policy Adopted 9/18/14
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