



LTSS Trust Commission Investment Strategy Subcommittee Meeting



MEETING GUIDELINES

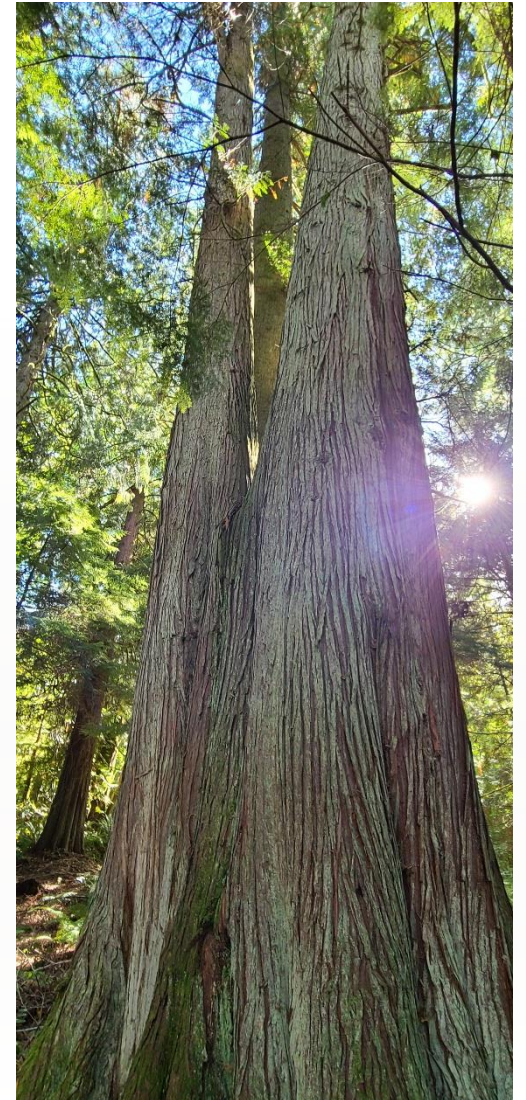
Commission Members

- Please turn on video
- Stay muted unless talking
- Encourage active participation
- Raise hand to speak if necessary

Observers

- Opportunity to provide public comment later in the meeting

WELCOME & CALL TO ORDER



MEETING GOALS

- Receive update on WA Cares Fund investment plan and timeline for review and approval
- Elect ISS Chair for 2022
- Set date and agenda for first ISS meeting in 2022

CONSENT AGENDA

- 9/22/2021 Investment Strategy Subcommittee meeting minutes

OLD BUSINESS

WA Cares Fund Investment Plan

WA CARES – INVESTMENT PLAN UPDATE

NOVEMBER 9, 2021

Allyson Tucker, Chief Investment Officer

Christopher Hanak, Senior Investment Officer – RMAA

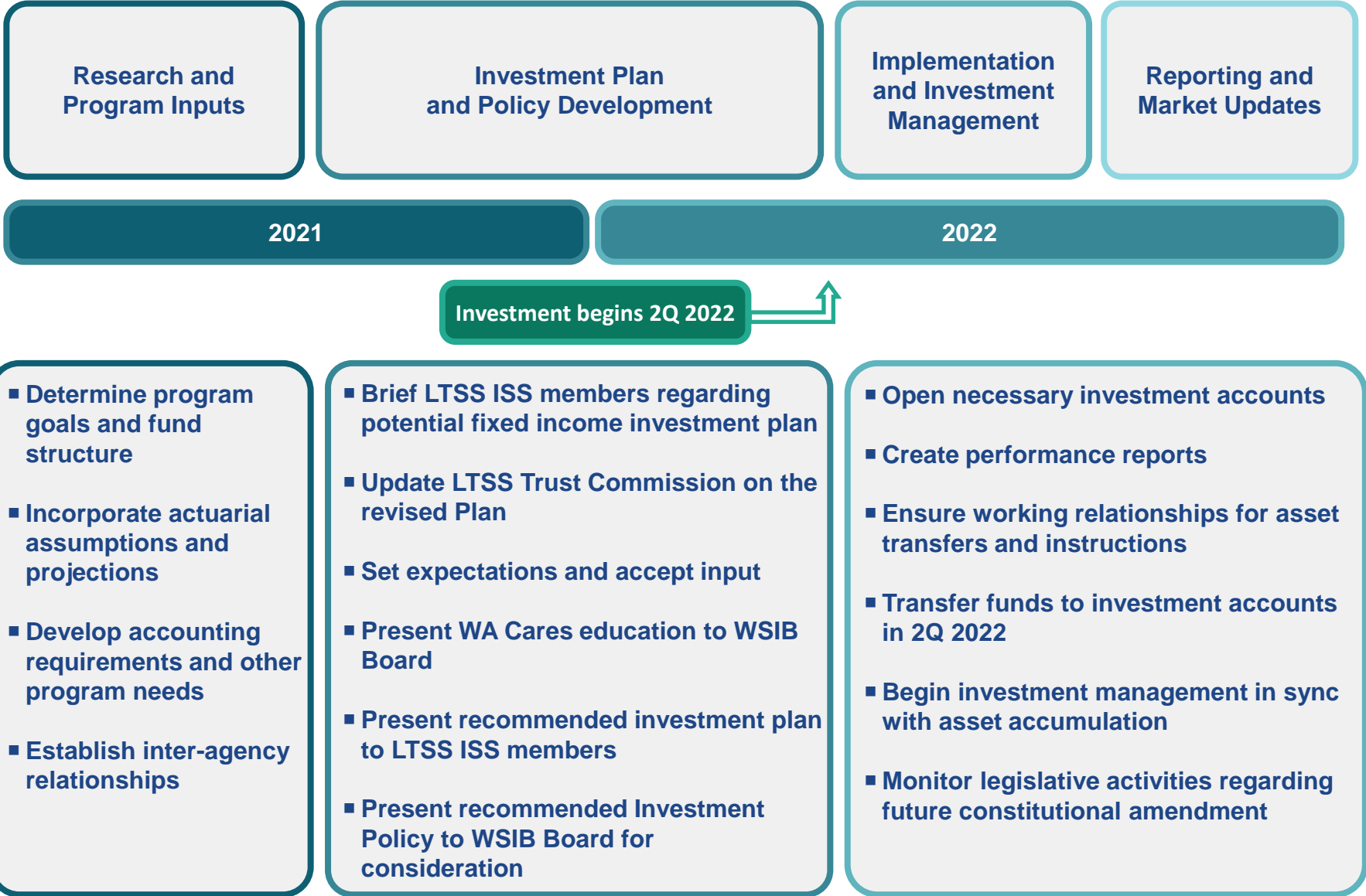


AGENDA

- **Implementation Plan**
- **WSIB Authority**
- **Investment Policy Components**
- **Preliminary Assessment of Risk Tolerance**
- **Risk Management**
- **Illustrative Risk Profiles of Cash and Fixed Income Portfolios**
- **Risk and Return Metrics Summary**
- **Next Steps**
- **Contact Information**



IMPLEMENTATION PLAN



Members of the WSIB are fiduciaries whose mission is to manage investments for retirement and public trust funds

Prudence

- The State Investment Board shall invest and manage the assets entrusted to it with reasonable care, skill, prudence, and diligence under circumstances then prevailing which a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an activity of like character and purpose. (RCW 43.33A.140)
- The Board shall consider investments not in isolation, but in the context of the investment of the particular fund as a whole and as part of an overall investment strategy, which should incorporate risk and return objectives reasonably suited for that fund. (RCW 43.33A.140 (1))

Diversification

- The Board shall diversify investments, unless members reasonably determine the purposes of a particular fund are better served without diversifying. (RCW 43.33A.140 (2))



- Purpose and Standard of Care
- Strategic Investment Objectives
- Investment Performance Objectives
- Asset Allocation
- Risk Constraints
- Permissible Investments
- Reporting
- Responsibilities and Policy Review



Purpose and Standard of Care

- To establish and outline an investment policy that allows for sufficient flexibility in the investment management process to capture investment opportunities, while providing parameters that will ensure prudence and care in the execution of the investment policy
- WSIB's standard of care was established by the Legislature and this section identifies relevant Revised Code of Washington (RCW) statutes

Strategic Investment Objectives

- Maintain benefit adequacy
- Maintain fund solvency and sustainability
- Limit fluctuations in premium rates
- Subject to those above, achieve a maximum return at a prudent level of risk

Investment Performance Objectives

- Performance goals in specific relation to success outcome measures (i.e., portfolio objective versus benchmarks)



Asset Allocation

- Custom fixed income fund
- Rebalancing considerations, responsibilities, and timing

Risk Constraints

- Issuer concentration limits
- Sector concentration limits
- Fixed income duration limits

Permissible Investments

- Defines investable universe for the program

Reporting

- Establishes reporting considerations internally and externally
- Identifies performance measurement providers
- Defines reporting content

Responsibilities and Policy Review

- Establishes responsibilities of Board, Committee, and Staff, respectively
- Sets out timeline for periodic review (i.e., at least every 4 years)



As a newly established program, WA Cares will begin accumulating assets in the second quarter of 2022 and will be funded by employee payroll deductions and investment income over the life of the program

The Office of the State Actuary has provided estimates of payroll deductions, benefit payments, and administrative costs for the program from 2022 to 2052

- **Stable source of revenue**
- **Benefits begin to payout in 2025**
- **Employee eligibility for the program includes a vesting period which contributes to net positive cash flows as the program ramps up and close to neutral annual cash flows toward the end of the projections**

WA Cares stable source of funding, low forecasted payout ratio, and long investment horizon indicate the ability to bear a higher level of risk

The investment program will consist of a new WSIB customized fixed income fund

Diversification is an important risk control mechanism in investing

A diversified portfolio contains a mix of distinct holdings to limit exposure to any single asset or risk

- The rationale behind this technique is that a portfolio constructed of different kinds of assets will, on average, yield higher long-term returns and lower the risk of any individual holding or security

The WSIB employs different tools to diversify its fixed income investments and manage risk, including sector selection, duration, and investment approach



INTEREST RATE RISK

Duration is a measure of a bond's or fixed income portfolio's price sensitivity to interest rate changes, while the yield curve describes the relationship between yield and maturity

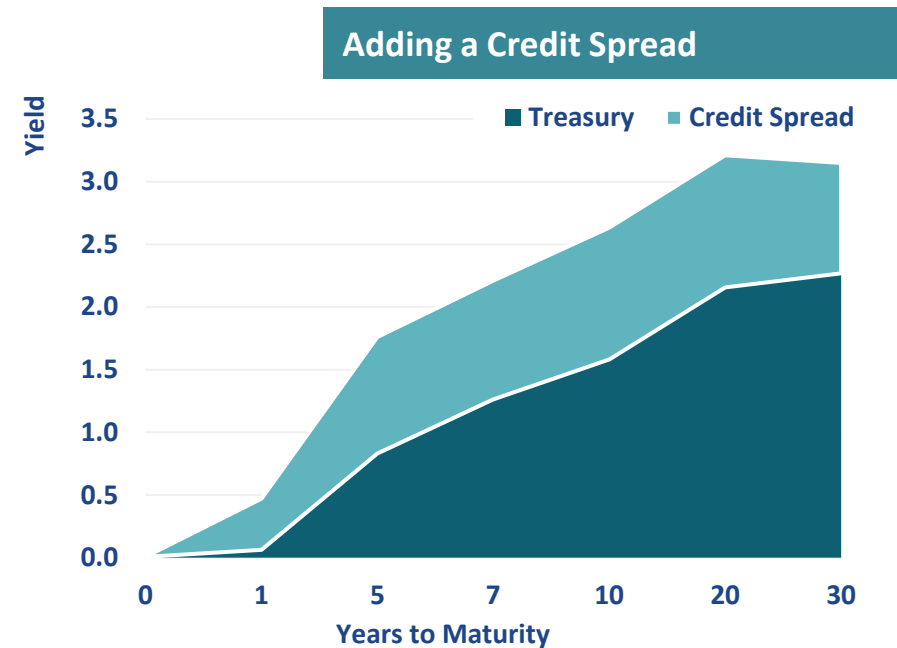
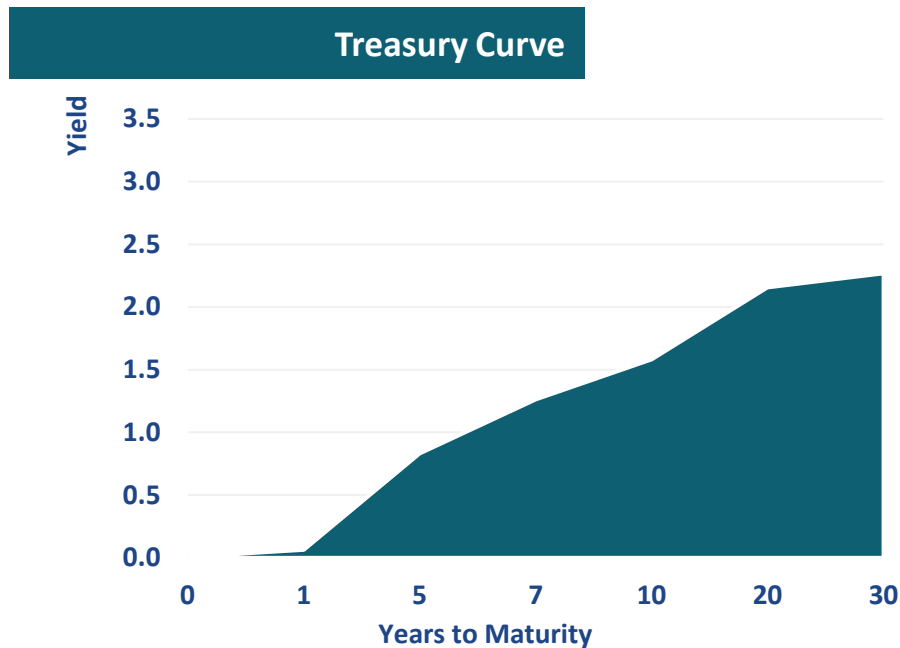
- Duration is most closely tied to maturity
 - Longer maturity bonds will usually have greater durations
- The greater a bond's duration, the more its price will change for a given change in yield
 - We manage the increase in term risk by holding a wide variety of maturity lengths
- In normally shaped yield curve, investors are compensated for term risk by additional expected return

Example of price return for a given change in yield for a bond with coupon and initial yield of 3 percent per annum

	Change in Yield				
	-2.0%	-1.0%	0.0%	1.0%	2.0%
2-yrs to maturity	2.0%	1.0%	0.0%	-1.0%	-1.9%
5-yr to maturity	4.0%	2.0%	0.0%	-1.9%	-3.8%
10-yr to maturity	17.2%	8.2%	0.0%	-7.5%	-14.4%
30-yr to maturity	50.2%	21.9%	0.0%	-17.1%	-30.4%

Credit risk is indicated by the difference between the yield on a given security and the yield on a treasury security of similar duration

- As opposed to credit securities, Treasury instruments assume no default risk due to government backing
- The addition of credit to a portfolio increases default risk and that risk is compensated by adding a premium to the treasury return
 - We manage increases in default risk by holding a wide variety of investment grade issuers

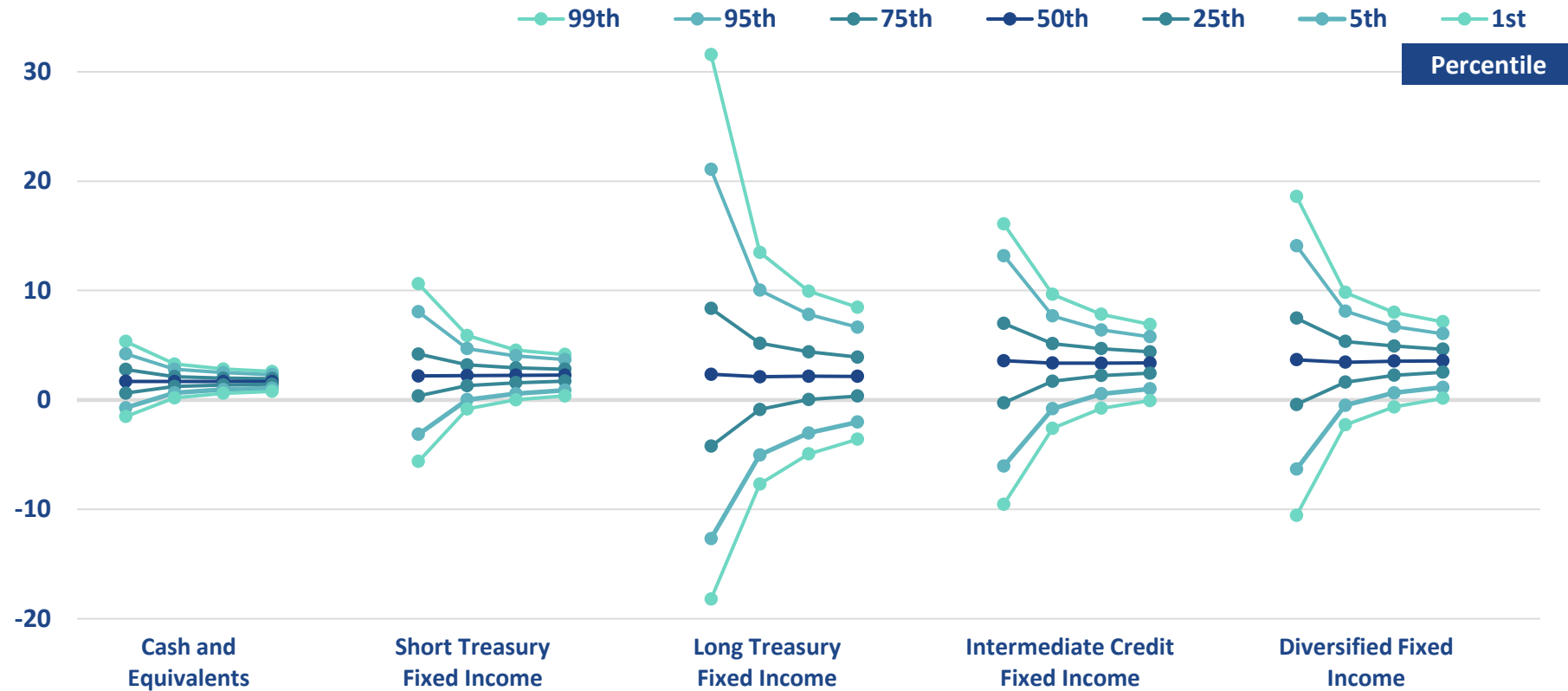


ILLUSTRATIVE RISK PROFILES OF CASH AND FIXED INCOME PORTFOLIOS

In all cases, as the time horizon expands, the uncertainty surrounding the return range narrows

- Therefore, the program could use its long-term horizon to add risk above cash when developing a diversified fixed income strategy

Return Distribution



RISK AND RETURN METRICS SUMMARY

Portfolio	Potential Allocation				
	Cash and Equivalents	Short Treasury 1-5 Fixed Income	Long Treasury Fixed Income	Intermediate Credit Fixed Income	Diversified Fixed Income
Median 15-year return	1.7%	2.3%	2.2%	3.4%	3.6%
Standard Deviation	1.5%	3.2%	10.3%	5.7%	6.0%
Sharpe Ratio	1.13	0.71	0.26	0.61	0.62
Probability of achieving a 15-year return of 3.5 percent or greater	0.0%	7.0%	29.7%	46.3%	52.0%
Probability of achieving a 15-year return of 2.5 percent or greater	1.9%	37.9%	44.4%	74.3%	75.7%
Probability of achieving a 15-year return of 1.5 percent or greater	68.8%	82.4%	58.9%	90.3%	92.1%
Probability of experiencing a 1-year negative return	13.1%	20.5%	39.7%	26.7%	27.4%
Probability of experiencing a 5-year negative return	0.3%	4.8%	31.3%	9.0%	8.6%
Benchmark	ICE BofA US 3M TBill TR USD	Bloomberg 1-5 Yr Treasury TR USD	Bloomberg US Treasury Long TR USD	Bloomberg US Interm. Credit TR USD	Bloomberg US Universal TR USD

November 2021	WSIB asks LTSS Trust Commission ISS to consider risk tolerance
November 2021	WSIB updates LTSS Trust Commission
December 2021	WA Cares education session provided to WSIB Board
March 2022	LTSS Trust Commission ISS provides feedback to WSIB on investment recommendation and policy
April 2022	WSIB invests initial premiums in cash
April 2022	WSIB Board considers WA Cares investment recommendation and policy for approval
April 2022	WSIB implements new investment strategy

CONTACT INFORMATION

Web Site

- <http://www.sib.wa.gov>

Address

- 2100 Evergreen Park Drive SW
P.O. Box 40916
Olympia, WA 98504

Phone Number

- (360) 956-4600



The screenshot shows the Washington State Investment Board website. At the top left is the logo with the tagline "Investing with integrity, prudence, and skill". A search bar is in the top right. The main navigation menu includes: INVESTING (Investment Reports, Asset Classes, Asset Stewardship/ESG), INFORMING (Board & Committees, Policies, WSIB Staff, Infobits & News, Contact Us), and EMPLOYING. The central banner features the text "Delivering investment results for retirement plans & public trusts" over a background image of business silhouettes. The footer contains four sections: "POPULAR PICKS" (Investment Reports, Policies), "WSIB ESG REPORT" with a leaf icon, "INFOBITS" (Asset Classes, Funds Managed, Investment Beliefs & More) with a document icon, and "WSIB STORY" with a bar chart icon.

NEW BUSINESS

Investment Strategy Subcommittee Chair for 2022

2022 ISS Chair

- Nominations
- Elect chair

FIRST ISS MEETING IN 2022

- When
 - Early April, prior to WSIB Board meeting on April 21st
- Proposed Agenda
 - Present final investment plan
 - Confirm readiness to start investments
 - Give examples of projected investment returns
 - Set date for next meeting

PUBLIC COMMENT

Questions about WA Cares Fund?

- Visit wacaresfund.wa.gov
- Submit questions to: wacaresfund@dshs.wa.gov

WRAP UP

- Action items review
- Adjourn

THANK YOU



WA
CARES
FUND

