

POLICY NUMBER: 2.10.800**EFFECTIVE DATE:** 11/19/15**TITLE:** Innovation Portfolio**SUPERSEDES:** 9/15/05**BOARD ADOPTION:** 11/19/15**APPROVED:** 

PURPOSE

The Innovation Portfolio's primary investment strategy is to provide the WSIB with an ability to invest in investment ideas that fall outside the traditional asset classes currently used by the Board, with a secondary purpose of providing the Board with comfort and demonstrated success before committing large dollar amounts to the strategy.

POLICY**Standard of Care**

Under Revised Code of Washington (RCW) 43.33A.030: Trusteeship of funds under the authority of the board 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 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 listed below.

Strategic Objectives

The objectives of the portfolio include:

- Proactively seeking incremental return commensurate with risk across a spectrum of opportunities.
- Increasing investment flexibility across market environments.
- Exploiting market inefficiency that will provide an above-market return at an appropriate level of risk.
- Enhancing long-term returns, while diversifying and/or lowering risk of the total portfolio.

Individual assets/ideas within the portfolio are expected to meet one or more of the above objectives. Assets/ideas that are approved for the portfolio will have a set evaluation period and an end goal. The end goals can include graduation to a dedicated portion of the CTF (new asset class or inclusion in an existing asset class), termination when market conditions change, or continual inclusion in the portfolio

Target Allocation

The target allocation for the Innovation Portfolio in the CTF shall be 0 percent but will be allowed to be as high as 5 percent of the CTF.

Risk Management and Portfolio Constraints

This type of investment opportunity cannot be modeled because it can come from a variation of an asset class or a combination of asset classes. The limited size of the

portfolio is the primary risk control mechanism. In addition, to provide for diversification, each investment concept will be limited to a maximum of 1 percent of the CTF.

Performance Objective

The overall benchmark for the portfolio is the weighted average of the underlying benchmarks for each asset/idea within the portfolio. Each program within the portfolio will have a defined benchmark before implementation.

Research and Recommendation Process

Staff will research and recommend investments to the internal Investment Committee, comprised of the Executive Director, the Chief Investment Officer, and the Senior Investment Officers (SIOs). Each recommendation shall include an investment thesis, time frame, evaluation criteria, benchmark(s), resources required, implementation plan, and funding amount. All investment recommendations must have unanimous approval by the Executive Director, Chief Investment Officer, and SIO sponsoring the investment recommendation.

RESPONSIBILITIES

Washington State Investment Board

The Board is responsible for approving the portfolio's strategic investment policy and reviewing the strategy and performance of the portfolio.

WSIB Staff

Staff is responsible for management of the portfolio. Staff is also responsible for recommending the strategic investment policy to the Board, implementing the policy, and reporting performance to the Board on a quarterly basis. Additionally, staff is responsible for reporting any new investment strategies approved and funded in the Executive Directors report to the Board.

POLICY REVIEW

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