

POLICY NUMBER: 2.14.200**EFFECTIVE DATE:** 12/17/20**TITLE:** Bond Market Fund**SUPERSEDES:** 6/18/20**BOARD ADOPTION:** 12/17/20**REVIEWED:**

PURPOSE

This document is the investment policy for the Bond Market Fund. The policy allows for sufficient flexibility in the management process to capture investment opportunities, while yet providing parameters that ensure prudence and care in the execution of the investment program.

Background

The Bond Market Fund is a commingled investment fund created by the Washington State Investment Board (WSIB) in accordance with Revised Code of Washington (RCW) 43.33A.170 and available for any of the assets under trusteeship of the WSIB. The trust is established to invest primarily in intermediate maturity credit bonds. It will be valued daily and open daily for contributions and withdrawals.

This trust is suitable for qualified and non-qualified assets for which an intermediate credit bond investment is desired.

POLICY**Standard of Care**

Under RCW 43.33A.170, the WSIB is authorized to establish commingled trusts for any of the assets under the WSIB trusteeship. Further, under RCW 43.33A.030, trusteeship of the 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 all WSIB 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 listed below.

Investment Objectives

In accordance with RCW 43.33A.110, the fund is managed to achieve a maximum return at a prudent level of risk. The investment objectives include:

1. Maintaining safety of principal.
2. Managing the assets to achieve a maximum return at a prudent level of risk.
3. Investing in a manner that will not compromise public trust.

Investment Performance Objectives

Performance of the fund shall be judged relative to its investment objectives, risk constraints, and investment approach. The performance objective is intended to provide the WSIB and individual participants with a benchmark to measure the performance of the investment policy and guidelines.

The fund is actively managed to meet or exceed the return of the Bloomberg Barclays U.S. Intermediate Credit Index given a similar level of risk.

Investment Approach

Permissible Fixed Income Investments

Any and all fixed income securities are permissible unless specifically prohibited, including, but not limited to, the following:

1. Credit Bonds.
2. U.S. Treasury and Government Agencies.

Duration

The fixed income portfolio duration range shall not exceed plus or minus 25 percent of the Bloomberg Barclays U.S. Intermediate Credit Index. If the duration is outside the range due to changes in market interest rates, or due to rebalancing, or due to managing stakeholder cashflows, the portfolio may remain outside the guidelines until it can be rectified without harming the portfolio.

Liquidity

The portfolio shall be made up of large, liquid credit bonds to provide for daily pricing and to meet all participant withdrawals.

Risk Constraints

1. Invest the assets 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. RCW 43.33A.140 prohibits a corporate fixed income issue's cost from exceeding 3 percent of the fund's market value at the time of purchase and its market value from exceeding 6 percent of fund's market value at any time. The WSIB will manage this fund with a more restrictive concentration constraint than required by the cited RCW. Exposure to any corporate issuer will not exceed 3 percent of the fund's market value.
3. Although fixed income securities that are rated below investment grade may not be purchased, portfolio holdings that are downgraded to those levels or are no longer rated may continue to be held. Investment grade is defined by the Bloomberg Barclays Global Family of Fixed Income Indices.

Reporting

1. A management information system is to be used for reporting internally to the Chief Investment Officer (CIO) or his/her designee on the implementation of this policy. This report is prepared monthly to include, but is not limited to the following:
 - a. Current market value and portfolio characteristics compared to policy guidelines and index characteristics.
 - b. Delinquencies and defaults will be reported to the CIO immediately.
2. Performance and market values will be reported quarterly by WSIB staff to the Board.

RESPONSIBILITIES

Washington State Investment Board

The Board is responsible for approving the fund's investment policy and reviewing the structure, strategy, and performance of the fund.

Public Markets Committee

The Committee is responsible for reviewing the investment policy and recommending any revisions to the Board.

Staff

Staff is responsible for recommending to the Public Markets Committee enhancements and changes to the investment policy, implementing the policy, managing the fund, ensuring effective and efficient daily pricing and establishing a net asset value (NAV), and reporting performance and policy compliance to the Board. Staff is also responsible for providing annual reports to major stakeholders.

POLICY REVIEW

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

Policy Adopted 7/20/00

Revised 3/30/01 (Supersedes SIB Policy 2.15.500, 7/20/00)

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