

POLICY NUMBER: 2.14.300**EFFECTIVE DATE:** 4/19/18**TITLE:** Daily Valued Funds Operations**SUPERSEDES:** 4/17/14**BOARD ADOPTION:** 4/19/18**REVIEWED:** *(Wet signature on hard copy)*

BACKGROUND

The Washington State Investment Board (WSIB) has created commingled, daily valued funds (DVF). The DVF are offered as self-directed investment options and/or as part of the asset allocation of the Retirement Strategy Funds (RSF).

PURPOSE

This policy document sets forth the Board's responsibilities with respect to the operations of the DVF. It articulates the structure; permitted scope of operation; delegated authorizations; and the policy ranges, tolerances, and decision criteria for the accounting of the daily activities relating to the DVF. Additional detailed, staff operating policies and procedures will be developed to supplement this policy.

Daily Valued Funds (DVF)

The three daily valued funds are:

- Savings Pool
- Bond Fund
- U.S. Treasury Inflation Protected Securities (TIPS) Fund

Structure and Operating Environment**WSIB**

The WSIB is responsible for the investment and management of the DVF, including investment policy-setting; fund structure; engaging external investment managers; portfolio rebalancing; trade processing; securities pricing of internally managed portfolios (e.g., the fixed income portfolio); fund valuation and unitization; and determination of the unit value for each DFV on a daily basis. The WSIB may contract with external parties to perform certain parts of these functions.

The WSIB Investment and Financial Services (IFS) unit is authorized to establish the accounting practices and processes over the DVF to ensure adequate internal controls exist, and to ensure published daily fund prices are accurate within policy targets and released timely.

Investors

The main investors in the DVF are the participants in the deferred compensation program (DCP) and the defined contribution retirement plans. Both the DCP and the defined contribution retirement plans are administered by the Department of Retirement Systems (DRS). The DRS contracts with third-party record keepers to perform the accounting at the participant level. The Bond Fund and the U.S. TIPS Fund are also investment components of the RSF.

Other funds from various state agencies (investors) may invest in the DVF, as determined by the WSIB's Executive Director.

Third-Party Service Providers

External securities pricing services are used by the WSIB to assist in pricing the underlying securities for the Bond Fund and the U.S. TIPS Fund.

The WSIB may use external parties to act as the book of record for the accounting, valuation, unitization and pricing of the DVF. The WSIB may also use external parties to serve as a counter-check, or shadow accounting, to the book of record.

POLICY

Although the DVF provide participants with the opportunity to obtain the value of their accounts and to trade and exchange investments on a daily basis, the DVF are not mutual funds governed by the Investment Company Act of 1940.

This policy cannot foresee every potential situation governing the management and operations of the DVF. Discretion is granted to staff to evaluate emergency situations, determine reasonable tolerances, and make required decisions to effectively manage and operate the funds. This policy will apply to most situations; however certain circumstances may require actions that vary from this policy.

Transactions

Ownership of units in each DVF is maintained at the participating plan/fund level by the WSIB. The WSIB does not process trade instructions at the individual member or participant level. The WSIB executes trade instructions received from the record keepers, investment managers, and/or other funds for each DVF.

The WSIB will accept transactions on days that the Bond Market (following the Securities Industry and Financial Markets Association holiday schedule) is open for trading, provided that all relevant parties and functions (including external party relationships) are fully operational and the WSIB can determine a closing price for the day. On days that the Bond Market is closed or all relevant parties and functions (including external party relationships) are not fully operational, all DVF transactions are held and processed the next business day when the markets reopen, or the parties or functions are fully operational, at the next day's unit price.

Valuation, Unitization and Pricing

DVF unit values are processed and recorded at the total DVF level in the book of record's system; a shadow accounting system may also be used to cross-check against the book of record. Participant fund level units are recorded by the WSIB's Operation staff.

Savings Pool

Guaranteed Insurance Contracts (GIC) and short term money market investments primarily make up the Savings Pool. The fund is valued at cost plus accrued income. If the credit rating of the issuer of a GIC declines to an extent that the value of the GIC is affected, the WSIB will engage an external party to establish the fair market value of the GIC.

Bond Fund

Intermediate maturity credit bonds primarily make up the Bond Fund.

External pricing services are used to price the underlying securities in the Bond Fund. A secondary pricing source will be used in the event of service interruptions with the primary pricing service.

U.S. TIPS Fund

Domestic TIPS a primarily make up the U.S. TIPS Fund. External pricing services are used to price the underlying TIPS in the fund. A secondary pricing source will be used in the event of service interruptions with the primary pricing service.

Unit Price Reporting

The book of record is the official source of the unit prices. The WSIB may elect to use an external party to independently perform price calculations as a cross-check to the book of record. Tolerances and follow up procedures will be established and maintained by the WSIB IFS unit.

The closing unit prices for each DVF are communicated by the WSIB to the appropriate record keepers and investment managers by the established deadlines, so that the record keepers and investment managers can record the transactions, values, units and allocated expenses, if applicable, to the participants' accounts.

Error Tolerances

Unit Pricing

Immaterial Unit Price Error

Errors resulting in less than \$0.01 per unit value are considered immaterial and will be corrected in the next day's price per unit. Immaterial unit price errors will be communicated to the Chief Operating Officer (COO) or designated back up. No external parties need to be notified.

Material Unit Price Error

Errors resulting in \$0.01 or greater per unit value are considered material. Material errors are communicated to, and discussed with, the participant record keeper and DRS at the time the error is discovered. Investment Managers invested in the DVF will be notified as soon as possible and informed of any change to their units of the DVF purchased or sold. Material errors are communicated to the Executive Director and COO, and reported to the Board.

Once a year, all errors will be reported to the Audit Committee.

Inability to Close

In the event that closing unit prices cannot be completed by the deadline of 3 p.m. PT, the WSIB will notify the record keepers and investment managers and advise an estimated time of completion. WSIB staff will remain on duty until the closing prices are completed.

In the event that the portfolio cannot be priced, the prior day prices will be adjusted by the following indices: for the Bond Fund – Barclays Capital Intermediate Credit Index, for the U.S TIPS Fund - Barclays Capital U.S. TIPS Index. The Asset Allocation Officer or designated back-up will provide the indices to the IFS unit, who will calculate the adjustment.

The COO and the IFS Director or designated back-up shall be alerted of potential closing problems.

Compensation from External Party Errors

The participant record keeper and RSF investment manager will be notified of material errors. The record keeper will determine the impact to participants and communicate with the WSIB and DRS. The DRS and WSIB will determine the appropriate course of action which could include a restatement of participant balances or compensation from third parties where appropriate.

Expenses and Costs

The costs of the DVF are to be borne by the participants and/or RSF investment managers. Expenses allocated to the DVF shall reflect direct services and/or the incremental costs associated with the investment and management of the Fund. All expenses and costs are either allocated to the Fund and reflected in the unit price, or assessed by the record keeper to applicable participant accounts to cover the costs. Costs associated with the DVF are accrued on a daily basis and reflected in the daily unit values, to the extent practical.

Business Readiness

The WSIB will take reasonable action to implement and test back-up systems and business continuance plans for the management and operation of the DVF. The WSIB reserves the option to temporarily suspend all transactions for any or all daily valued funds due to uncontrollable events such as natural disasters or emergencies.

The Executive Director (or designated executive back-up) is authorized to suspend transactions if necessary. Suspension of transactions will be by official notification to relevant parties, including the Chair and/or Vice Chair of the Board, DRS, the record keepers, external fund managers, global custodian, investment accounting verification provider, and announcements on the WSIB Web site (when feasible).

Responsibilities

The Board is responsible for approving DVF operations policy.

The Audit Committee is responsible for reviewing and recommending the DVF operations policy to the Board. They are also responsible for monitoring errors that impact the DVF.

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 3/20/03

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