

POLICY NUMBER: 2.35.100**EFFECTIVE DATE:** 4/19/18**TITLE:** Advanced College Tuition Payment Program**SUPERSEDES:** 10/4/16**BOARD ADOPTION:** 4/19/18**APPROVED:**

PURPOSE

This document outlines the investment policy and guidelines for the Advanced College Tuition Payment Program, commonly referred to as the Guaranteed Education Tuition (GET) Program, and supersedes any prior board-adopted policies.

These guidelines allow 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.

The investment responsibility for the GET Program is granted to the Washington State Investment Board (WSIB) in accordance with RCW [28B.95.070](#).

POLICY**Standard of Care**

Under RCW [43.33A.030](#), trusteeship of this trust 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 investment objectives listed below.

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 the identification of the prudent level of risk for the program considering the program's need to meet or exceed the growth rate of tuition costs. Based on this requirement the order of the objectives shall be:

1. Maintain the solvency of the fund and the financial stability of the program as measured by the external actuary.
2. Ensure sufficient assets are available to fund the expected college tuition payments.
3. Subject to numbers 1 and 2 above, try to achieve a maximum return that will meet or exceed the rate of growth in college tuition costs over a 10-year period, at a prudent level of risk.
4. Invest in a manner that will not compromise public confidence in the program.

Performance Objectives

Performance of the investment portfolio shall be judged relative to the investment objectives, the risk constraint standards, and the investment approach.

The fund has both a long-term absolute goal and several relative performance objectives:

1. Achieve or exceed a 3.25 percent real rate of return relative to inflation, as measured by the Consumer Price Index (CPI), over a 10-year period.
2. Relative to asset allocation targets, generate a return equal to, or in excess of, the passive benchmark portfolio. The WSIB will establish a passive benchmark that reflects GET's unique asset allocation policy.

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](#).
2. 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 (RCW [43.33A.140](#)).
3. Diversification of the assets at a prudent level to moderate fluctuations in the market value of the program.

Balance of Risk and Return

Given the need to meet or exceed the rate of college tuition inflation over a long time period and the ranking of investment objectives, the investment portfolio will fall toward the upper end of the risk/return efficient frontier. The overriding objective is to ensure the investment assets meet or exceed the estimated liabilities.

Asset Allocation

The asset allocation mix will be reviewed every four (4) years, or sooner if there are significant changes in program size, funding status, or liability duration.

Capital market conditions, funding status, and liability assumptions are dynamic, not static. Consequently, the WSIB staff will meet at least annually with the GET Committee, administrative staff, and the external actuary to review the investment portfolio and the financial status of the program. The WSIB has delegated to the executive director the authority to rebalance the asset allocation within the procedures established in the WSIB Investment Policies & Procedures, Volume 3.

Assets will be rebalanced across asset classes when market values of the assets fall outside the policy ranges. Rebalancing will be accomplished first by using normal cash flow and second by 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.

Engrossed Senate Bill 6087 passed the Legislature in March 2018 and became effective on April 15, 2018. The bill created an incentive for existing GET unit holders to transfer to Washington's 529 College Savings Plan (Savings Plan), expected to open in May 2018. The bill establishes a 3-month transition window during which eligible GET account holders may transfer funds to the Savings Plan; the exact opening date of the window is yet to be determined, but it must begin within 90 days of the bill's effective date. While there is the potential for significant outflow from GET to the Savings Plan, there is no way to know for certain the extent of that outflow in advance. The potential outflows have major implications for liquidity and asset allocation in managing GET Fund assets. Assets departing GET and transferring to the Savings Plan will need to be sold and converted to cash to meet anticipated outflows. Assets remaining within the GET program need to be managed against future plan liabilities.

Greater flexibility is required in managing the asset allocation of the GET Fund to meet liquidity needs for those assets departing the GET Fund while also maintaining market exposure for assets remaining in the GET Fund during and after the transition window. Accordingly, the permissible ranges detailed below are established effective immediately through the end of the transition window.

| ASSET ALLOCATION | Range |
|-------------------------|---------------|
| Public Equity | 0-100 percent |
| Fixed Income | 0-100 percent |
| Cash | 0-100 percent |

Within 30 days of the closure of the transition window, the asset allocation for the GET Fund will revert to a 60% equity/40% fixed income allocation as detailed below.

| ASSET ALLOCATION | Target | Range* |
|-------------------------|-------------------|---------------|
| Public Equity | 60 percent | 55-65 percent |
| Fixed Income | 40 percent | 35-45 percent |
| Cash | 0 percent | 0-5 percent |

The GET program will issue installment purchase contracts with a 7.5 percent interest rate. If these are heavily used, the asset allocation will be reviewed to include these receivables as an asset class.

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

Asset Class Structure

The WSIB establishes asset class structure with wide guidelines for staff to move assets in order to achieve the fund's overall objectives.

Equity

The benchmark and structure for public equity investments will be to passively track the broad global stock market as defined by the MSCI All Country World Investable Market Index (MSCI ACWI IMI).

Fixed Income

The long-term goals of the asset class are to return more than inflation and to limit volatility for the total portfolio.

Permissible Investments

1. Inflation Indexed Bonds
2. U. S. Treasuries and Government Agencies
3. Credit Bonds
4. WSIB Bond Market Funds and
5. Cash Equivalent Funds.

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 using the rating schema method employed by the Bloomberg Barclays Capital Global Family of Fixed Income Indices.

PERFORMANCE REVIEW GUIDELINES AND REPORTING

Performance will be measured by the custodian bank and reported quarterly by the WSIB staff to the Board.

RESPONSIBILITIES

Washington State Investment Board

The Washington State Investment 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 the performance of the funds.

Public Markets Committee

The Committee is responsible for reviewing the structure and strategy of the funds and recommending any revisions to the Board.

WSIB Staff

Staff is responsible for recommending to the Public Markets Committee enhancements and changes to the investment policy, as well as implementing policy, managing the assets, rebalancing the asset allocation, and reporting performance and policy compliance to the Board and the GET Committee. Staff is also responsible for recommending the strategic asset allocation 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.

Original Policy Adopted 8/20/98

Revised 10/25/01, Supersedes WSIB Policy 2.35.100

Revised 9/19/02

Revised 10/16/03

Revised 7/21/05

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