

**POLICY NUMBER:** 2.35.400**EFFECTIVE DATE:** 10/4/16**TITLE:** Developmental Disabilities  
Endowment Trust Fund**SUPERSEDES:** 12/18/14**BOARD ADOPTION:** 12/18/14**APPROVED:** 

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**PURPOSE**

This document outlines the investment policy and objectives for the Developmental Disabilities Endowment Trust Fund (DDEF) created by the Legislature in 2000 and placed under the trusteeship and investment management of the Washington State Investment Board (WSIB).

The DDEF funds are comprised of two distinct pools of assets. The first is money contributed by the state to be used as matching funds for qualified participants. The funds stay within this pool until disbursed to participants. The second pool of money is comprised of private assets deposited by private citizens. This pool of private funds limits the WSIB's ability to invest these assets in commingled vehicles commonly used for other funds managed by the Board. The private fund's pool has not been granted federal tax exempt status, and beneficiaries are taxed accordingly by DDEF's recordkeeper.

**POLICY**Standard of Care

Under RCW [43.33A.030](#), trusteeship of this trust is vested in the voting members of the Board. State statute, RCW [43.33A.140](#), establishes a standard of care for investment of these funds. Investment authority is granted in Chapter [43.330](#) RCW, as amended in 2000. 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 identification of the prudent level of risk for the program relative to the needs of the Developmental Disabilities Endowment governing board and its participants. Based on this requirement, the order of the objectives shall be:

1. Maximize return at a prudent level of risk based on identified investment time horizons.
2. Ensure sufficient income is available to fund the expected needs.
3. Invest in a manner that will not compromise public confidence in the program.

### Investment Performance Objectives

Performance of the investment portfolio shall be judged relative to its investment objectives, risk constraint standards, and investment approach. The performance objectives are intended to provide the WSIB, Developmental Disabilities Endowment governing board, and individual participants with benchmarks to measure the performance of the investment policy and the guidelines.

1. Short term: earn a rate of return that exceeds inflation, with a bias toward preservation of the corpus.
2. Long term: earn a rate of return that exceeds inflation.

### 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 endowment.

### Asset Allocation

The asset allocation will be reviewed at least every four (4) years. WSIB staff will meet at least annually with the endowment's governing board to determine if there have been any significant changes in funding levels or the objectives of the endowment and to review the investment portfolio performance. The Board has delegated to the executive director the authority to rebalance the asset allocation to fall within Board-adopted ranges or targets. Assets will be rebalanced across asset classes when market values of the assets fall outside the policy ranges. Rebalancing will be accomplished first using normal cash flow and second through 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.

### State Funds

	<b>Target</b>	<b>Range*</b>
<b>Fixed Income</b>	83%	80-86%
<b>Cash</b>	0%	0-5%
<b>Global Equity</b>	17%	14-20%

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

### 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.

### 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).

### Cash

The cash portfolio will be invested in short-term investment funds and money market funds.

### Private Funds

The private funds are invested with a prudent level of risk based on the assumed average trust's time horizon. Since these funds are taxable, they cannot be invested in the majority of the commingled investment funds currently used by the WSIB. The WSIB will choose a mutual fund with low turnover, to minimize taxable events, and low fees, to minimize costs; funds are currently invested in the Vanguard Balanced Fund. The asset allocation will be targeted to a beneficiary with a long time horizon and moderate to high risk tolerance. A minimal cash level will be held to fund beneficiary payments.

	<b>Target</b>
<b>Fixed Income</b>	40%
<b>Equities</b>	60%

The WSIB will invest the private funds in a tax-eligible fund(s) that is expected, over the long run, to match the above target. The assigned benchmark for the fund is a blend of 60 percent CRSP U.S. Total Market Index and 40 percent Bloomberg Barclays U.S. Aggregate Float Adjusted Index.

## **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 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 endowment's governing board. 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.

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