

**POLICY NUMBER:** 2.35.500**EFFECTIVE DATE:** 11/15/18**TITLE:** Washington State Opportunity  
Scholarship Fund**SUPERSEDES:** 10/4/16**BOARD ADOPTION:** 11/15/18**REVIEWED:** *(Wet signature on hard copy)***PURPOSE**

This document establishes the investment policy and guidelines for the Washington State Opportunity Scholarship (WSOS) Fund. The WSOS Fund was created by the Washington State Legislature in 2011 to encourage student participation in high employer-demand programs of study. The investment responsibility for the WSOS Fund is granted to the Washington State Investment Board (WSIB) in accordance with Revised Code of Washington ([RCW](#)) [28B.145.090](#).

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 WSOS funds are comprised of two distinct pools of assets each comprised of private funds and state matching funds ([RCW 28B.145.040](#)). The two pools are the scholarship and endowment accounts. The primary distinction between the two accounts is that scholarships may be paid out of both principal and earnings of the scholarship account, while scholarships out of the endowment account, if eligible, must be paid out of investment earnings. Endowment accounts are generally considered to have long time horizons and can therefore tolerate a higher level of volatility.

**POLICY**Standard of Care

Under [RCW 43.33A.030](#), trusteeship of funds under the authority of the WSIB 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 identifying the prudent level of risk relative to the needs of the WSOS Board. Based on this requirement, the order of the objectives shall be:

1. Maintain the financial stability of the program;
2. Ensure sufficient assets are available to fund the scholarship goals of the program over a 10-year time horizon;
3. Subject to one and two above, manage the assets to achieve a maximum return at a prudent level of risk; and
4. Invest in a manner that will not compromise confidence in the program.

### Investment Performance Objectives

Performance of the investment portfolio shall be judged relative to the investment objectives, the risk constraint standards, and the investment approach. The performance objectives are intended to provide the WSIB and the WSOS Board with benchmarks to measure the investment policy and the guidelines.

The fund has a relative performance objective for the long-term investment horizon: Relative to asset allocation targets, generate a return equal to, or in excess of, the passive benchmark portfolio. The benchmarks for the scholarship and endowment accounts are a custom blend of the benchmarks for the underlying asset classes.

### 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](#), subject to the unique risk tolerances of the WSOS program;
2. No corporate fixed income issues or common stock holdings 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](#)); and
3. Diversify the assets at a prudent level to moderate fluctuations in the market value of the program.

### Asset Allocation

The asset allocation mix will be reviewed every four (4) years or sooner if there are significant changes in markets, program size, or liabilities. The WSIB staff will meet at least annually with the WSOS Board or Investment and Finance Committee to review the investment portfolio and the financial status and goals of the program.

The WSIB 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. The timing of the rebalancing will be based upon market opportunities and the consideration of transaction costs and, therefore, need not occur immediately.

### Scholarship Account

#### State Match Funds

The state provides matching funds to WSOS to fund scholarships in partnership with private corporations. Investment eligibility of the matching funds is determined by the state constitution and laws. If such funds become eligible for investment in corporate fixed income and equity securities, they will be invested with the asset allocation identified in the "Private Funds" section of this policy.

#### Permissible Investments:

1. Government agencies and U.S. Treasuries.
2. Short-term Investment Funds (STIF) that invest strictly in U.S. government or government agency instruments, including repurchase agreements for U.S. government and agency instruments.
3. Cash collateral for security lending and collateral for repurchase agreements is restricted to U.S. government and government agency securities.

<b>ASSET ALLOCATION</b>	<b>Target</b>	<b>Range</b>
Cash	100%	100%

### Private Funds

Private funds held in the scholarship account are comprised of donations from corporations and individuals, are not state funds, and are not subject to state constitution investment eligibility guidelines.

<b>ASSET ALLOCATION</b>	<b>Target</b>	<b>Range*</b>
Cash	5%	0% - 10%
Public Equity	25%	20% - 30%
Fixed Income	70%	65% - 75%

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

### Asset Class Structure

The WSIB establishes asset class investment policy with wide guidelines for staff to move investment priorities within an asset class in order to achieve the fund's overall objectives.

### Public Equity

The public equity component will be invested passively to track the return of a broad global equity benchmark. The benchmark for the public equity component is the MSCI All Country World Investable Market Index (MSCI ACWI IMI).

### Fixed Income

The fixed income portion of the account will be invested in the WSIB Bond Market Fund. The investment policy and guidelines are defined in WSIB Policy [2.14.200](#). The benchmark for the Bond Market Fund is the Bloomberg Barclays U.S. Intermediate Credit Index.

### Cash

The cash component will be invested in a portfolio of high-quality securities including U.S. treasury bills, notes, and other obligations issued or guaranteed by the U.S. government with a maturity of three months or less. The benchmark for the cash component is the BofA ML 3-Month Treasury Bill Index.

## **Endowment Account**

### State Match Funds

The state provides matching funds to WSOS to fund scholarships in partnership with private corporations. Investment eligibility of the matching funds is determined by the state constitution and laws. If such funds become eligible for investment in corporate fixed income and equity securities, they will be invested with the asset allocation identified in the "Private Funds" section of this policy.

### Permissible Investments

1. Government agencies and U.S. Treasuries.
2. STIF that invest strictly in U.S. government or government agency instruments, including repurchase agreements for U.S. government and agency instruments.
3. Cash collateral for security lending and collateral for repurchase agreements is restricted to U.S. government and government agency securities.

<b>ASSET ALLOCATION</b>	<b>Target</b>	<b>Range</b>
Cash	100%	100%

#### Private Funds

Private funds held in the endowment account are comprised of donations from corporations and individuals, are not state funds, and are not subject to state constitution investment eligibility guidelines.

<b>ASSET ALLOCATION</b>	<b>Target</b>	<b>Range*</b>
Cash	0%	0% - 5%
Public Equity	80%	75% - 85%
Fixed Income	20%	15% - 25%

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

#### Asset Class Structure

The WSIB establishes asset class investment policy with wide guidelines for staff to move investment priorities within an asset class in order to achieve the fund's overall objectives.

#### Public Equity

The public equity component will be invested passively to track the return of a broad global equity benchmark. The benchmark for the public equity component is the MSCI All Country World Investable Market Index (MSCI ACWI IMI).

#### Fixed Income

The fixed income portion of the account will be invested in the WSIB Bond Market Fund. The investment policy and guidelines are defined in WSIB Policy [2.14.200](#). The benchmark for the Bond Market Fund is the Bloomberg Barclays U.S. Intermediate Credit Index.

### **PERFORMANCE REVIEW GUIDELINES AND REPORTING**

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

### **RESPONSIBILITIES**

#### Washington State Investment Board

The 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 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 WSIB Board.

#### WSIB Staff

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

Board and the WSOS Board or Investment and Finance Committee. Staff is also responsible for recommending strategic asset allocation to the WSIB Board.

**POLICY REVIEW**

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