

**POLICY NUMBER:** 2.35.600**EFFECTIVE DATE:** 12/14/17**TITLE:** Higher Education Retirement Plan  
(HERP) Supplemental Benefit Fund**SUPERSEDES:** 12/18/14**BOARD ADOPTION:** 12/14/17**APPROVED:** **PURPOSE**

This document outlines the investment policy and guidelines for the Higher Education Retirement Plan (HERP) Supplemental Benefit Fund. 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.

**BACKGROUND**

Revised Code of Washington (RCW) [28B.10.423](#) was revised during the 2011 Legislative Session to close the existing HERP to new hires and restrict the administration authority of the institutions. Prior to passage of this legislation, the institutions approached this plan as a pay-as-you-go plan and were not prefunding the liabilities. The HERP Supplemental Benefit Fund, as it now exists, is a defined benefit retirement fund currently in accumulation mode and is subject to further action by the Legislature. The WSIB, working in coordination with members of the Pension Funding Council (PFC) Working Group, will review the fund's asset allocation and recommend changes as appropriate. The review is expected to be completed in 2018. Until the review is complete and an asset allocation strategy has been adopted by the WSIB, HERP Supplemental Benefit Fund will remain invested in cash.

**POLICY**Standard of Care

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 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 fund relative to the needs of the participants. As the fund remains in accumulation mode, it will likely have significant unfunded liabilities. Given that the fund is subject to further action by the Legislature, the WSIB will invest the funds as though they are not qualified retirement assets.

Based on these requirements, the order of the objectives shall be:

1. Maintaining safety of principal.
2. Subject to number 1 above, managing the assets to achieve a maximum return at a prudent level of risk.
3. Investing 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 the investment objectives, risk constraints, and investment approach. The performance objectives are intended to provide benchmarks to measure the performance of the investment policy and the guidelines.

Staff believes that once the asset allocation strategy is determined, the fund will have a relative performance objective for the long-term investment horizon: relative to asset allocation targets, the fund will generate a return equal to, or in excess of, the passive benchmark portfolio. The benchmark for the fund is a custom blend of the benchmarks for the underlying asset classes. Currently, the benchmark for the fund is comprised solely of a cash benchmark.

### Risk Constraints

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 fund.

### Asset Allocation

An asset allocation review will determine an appropriate investment strategy. Staff anticipates delivering a recommendation to the WSIB for its consideration in 2018. The asset allocation will be reviewed every four (4) years or sooner if there are significant changes in markets or liabilities. The Board has delegated to the executive director the authority to rebalance the asset allocation within the procedures established by the WSIB.

Currently, the fund is invested in cash.

	<b>Target</b>	<b>Range</b>
<b>Cash</b>	100%	0% - 100%

### 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.

### Cash

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

## **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 fund.

### Public Markets Committee

The Committee is responsible for reviewing the structure and strategy of the fund 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. Staff is also responsible for recommending 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.