



Enterprise Risk Management Introduction

A successful Enterprise Risk Management (ERM) program begins with understanding risk, which is the potential for action or inaction to cause loss, harm, or missed opportunity. Some risk must be taken to create value and to foster innovation while other risk should be avoided or managed to protect value. A successful ERM program will help recognize, assess, and communicate both of these types of risk across the organization.

The WSIB's mature ERM framework includes a set of risk appetite statements, one for each key risk we manage. Risk appetite is the amount of risk an organization is willing to take in its pursuit of value.

The risk appetite statements:

- reflect the strategy and organizational objectives.
- recognize there will always be a balance between competing demands when managing the risks.
- consider the limitations of the business resources and structure.
- document what we will and will not do for each key risk.
- acknowledge our willingness to take on certain levels of risk.

WSIB ERM Key Risk Framework

Managing the Assets		Managing the Organization			Safeguarding Our Reputation
Fiduciary Risk	Investment Risk	Strategic Risk	Governmental Environment Risk	Operational Risk	Reputation Risk

Key Risk Appetite Scale





Fiduciary Risk Strategy

- Our decisions are made in the best interest of our beneficiaries.
- Our Board and staff comply with fiduciary standards and the Conflict of Interest Policy.
- Our mission, to manage investments for retirement and public trust funds with the highest standard of professional conduct for the exclusive benefit of fund beneficiaries, is clear to our stakeholders, Board, and staff.

The highest fiduciary standards are built by:



Fiduciary duty requires that assets be managed with reasonable care, skill, prudence, and diligence following the prudent person standard.

Therefore we:

- focus on the investment mission to serve all beneficiaries.
- establish and enforce policies and procedures that govern decision making.
- ensure that the investment belief framework is used consistently to guide decisions.
- ensure our values and expectations are understood and integrated throughout the Board and agency.
- adhere to the highest level of industry standards and regulations.

We will not:

- make decisions for personal benefit.
- allow external pressures to direct the outcomes of investment decisions.

Enterprise Risk Management's Definition

The risk of acting for reasons other than the benefit of our constituents. As a fiduciary, the WSIB is required to manage investments with the highest standards of professional conduct for the exclusive benefit of fund beneficiaries. The Board operates within established investment policies designed to create well-balanced portfolios that weather the impacts of changing market conditions to meet or exceed the financial objectives of those we serve.

Excerpt from the WSIB Conflict of Interest Policy 2.00.100

"Board members and employees of the Board owe an absolute duty of loyalty to the Board and the members and beneficiaries of the funds. A "conflict of interest" exists whenever a Board member or employee is in a position in which he or she takes any action that is, may be or reasonably appears to be influenced by considerations other than that which is in the best interest of the Board, whether or not these other considerations are for financial or personal gain. Such action motivated by other considerations would be a breach of the member or employee's duty of loyalty."

Willingness to Take Risk

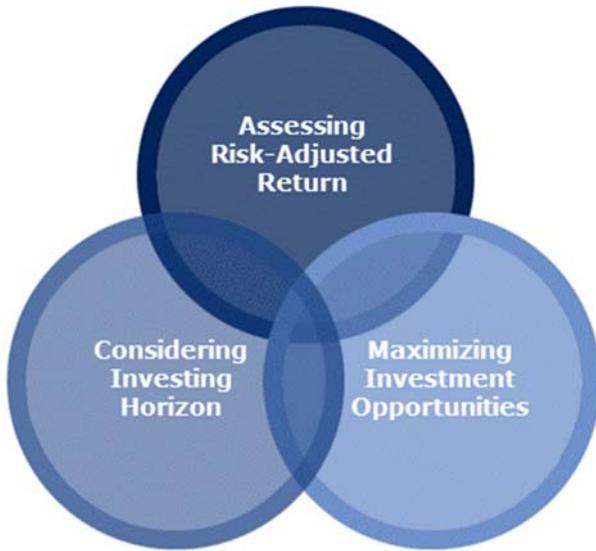




Investment Risk Strategy

- We invest a diversified portfolio in a thoughtful manner to meet the needs of our stakeholders.
- We invest with highly skilled managers and partners.
- We monitor the investment performance, risk, and expenses of the fund.

Investment Risk is managed by:



We maximize returns at a prudent level of risk recognizing that risk tolerance can vary by stakeholder.

Therefore we:

- have Board policies and investment beliefs that describe investment risk appetite limits.
- maintain stable asset allocation focused on a long-term strategy and diversification.
- invest with those in which we have conviction based on our assessment of people, structure, and strategy.
- manage for a higher risk-adjusted return in private markets where applicable.
- ensure the expected return compensates us for the risks taken.
- track the long-term trends for strategic impact on the total portfolio.

We will not:

- be short-term market timers.
- invest in an area until we have the expertise and resources.
- accept strategy drift.
- be overly influenced by market trends.

Enterprise Risk Management's Definition

These risks encompass all potential risks resulting from deployment of our assets into various investment strategies. They include market, liquidity, leverage/refinance, counterparty, currency, credit, sustainability, and interest rate risk. They may stem from changes in political, economic, demographic, behavioral, and technological factors. The WSIB seeks to manage the overall level of investment risk and uncertainty by diversifying across asset classes, investment managers, sectors, strategies, and geographies. The WSIB measures and assesses investment risk using quantitative risk systems to inform qualitative discussions.

Willingness to Take Risk





Strategic Risk Strategy

- We implement a strategic framework that balances value, support, and capacity in support of a skillful Board to meet the long-term goals of our stakeholders.
- We challenge our business assumptions and are vigilant in identifying causes of failure.
- We take risk, while maintaining a margin of safety and sustained operational discipline.

A skillful organization’s strategy is built by:



We take the risks necessary to reach our strategic goals.

Therefore we:

- clearly articulate our mission and approach for achieving those goals.
- adjust our plans based on resources and information.
- empower staff to take appropriate risk.
- cultivate leadership and accountability.

We will not:

- ignore failures.
- accept strategy drift.
- let our strategy be influenced by short-term organizational and investment trends.

Enterprise Risk Management’s Definition

Strategic risk refers to not making decisions necessary to meet the needs of our constituents. We manage strategic risk by having a strong Board governance, capable leadership, an effective strategic planning process, and appropriate resources.

Willingness to Take Risk





Governmental Environment Risk Strategy

- We fulfill our obligations as both a governmental organization and a fiduciary.
- We are transparent and accountable.

A governmental environment is shaped by:



Governmental environment risk is reduced through engagement of the marketplace and stakeholders.

Therefore we:

- speak with one voice.
- monitor government mandates.
- engage with outside interests.
- educate stakeholders in a proactive manner.
- maintain the highest ethical standards.

We will not:

- seek publicity to the detriment of our integrity.
- sacrifice our fiduciary duty at the expense of our reputation.
- manage beyond our governance structure.

Enterprise Risk Management’s Definition

The WSIB operates within a government framework in a political environment that may not always align with our fiduciary duty or with the practices and priorities of the investment organizations with which the WSIB partners. Governmental environment risk arises from politics and business seeking to influence the mission of the agency. We anticipate and respond to changes in the governmental environment by monitoring legislative actions and engaging in stakeholder communication.

Willingness to Take Risk

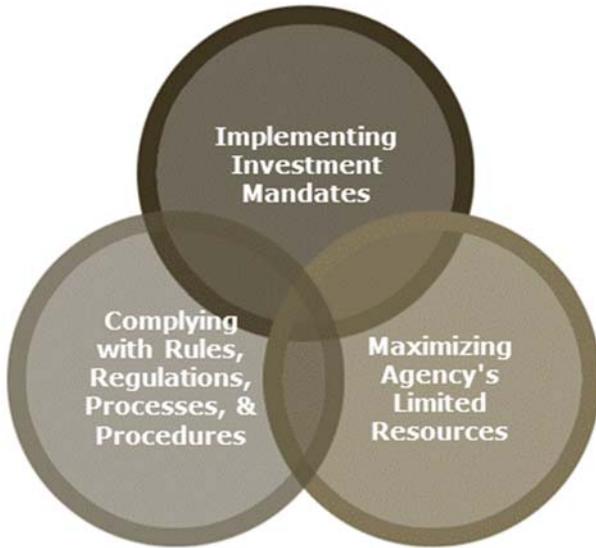




Operational Risk Strategy

- We manage investment operations efficiently.
- We optimize the agency's limited resources.
- We comply with rules, regulations, processes, and procedures.

An excellent operation is built by:



Successful operations have strong controls and a commitment to continual improvement.

Therefore we:

- establish processes and programs that provide independent oversight.
- engage with the best partners.
- empower staff to identify operational efficiencies.
- maintain a business continuity plan that manages risks during extraordinary circumstances.
- value accuracy over speed and accept that deliverables can change.
- manage outsourcing risks associated with vendors.
- change providers to improve services or manage risk.
- recruit and retain the best personnel.
- develop innovative programs and embrace new technology.
- value a safe work environment.

We will not:

- allow controls to be ignored or circumvented.
- allow audit recommendations to go unaddressed.

Enterprise Risk Management's Definition

Operational risk refers to losses that may arise from short comings or failures in processes, people, or systems. To foster organizational growth and change, management is committed to creating an environment where staff continues to learn and to implement operational best practices.

Willingness to Take Risk





Reputation Risk Strategy

- We work to be viewed as a strategic investor and to maintain the trust and confidence of our beneficiaries, Legislature, and Executive Branch.

An excellent reputation is characterized by:



We believe in our mission and manage our reputation risk.

Therefore we:

- actively manage each of the key risks.
- speak with one voice.
- provide education on our investment strategy to stakeholders.
- commit to transparent business practices.
- have zero tolerance for corruption.
- invest in a manner that earns public confidence by serving the long-term needs of our stakeholders.

We will not:

- make investments without thorough due diligence.
- invest outside our area of expertise.
- operate outside of an established ethical framework.

Enterprise Risk Management's Definition

The WSIB must maintain its reputation in order to be a preferred partner in the marketplace, a trusted fiduciary, and a valued resource for the citizens of Washington. Failure in any of these risk categories will damage the WSIB's credibility and make it difficult to achieve its goals. The Board has adopted code of conduct and conflict of interest policies to ensure that its actions meet the most stringent standards. Ongoing education assists the Board in making informed decisions.

Willingness to Take Risk

