

POLICY NUMBER: 2.35.600**EFFECTIVE DATE:** 06/16/2022**TITLE:** Long-Term Services & Supports
Trust Account**SUPERSEDES:** N/A**BOARD ADOPTION:** 06/16/22**REVIEWED:**

PURPOSE

This document is the investment policy for the Long-Term Services & Supports (LTSS) Trust Account managed by the Washington State Investment Board (WSIB). The policy allows 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 LTSS Trust Account is granted to the WSIB in accordance with RCW 50B.04.110, which states the Department of Social and Health Services (DSHS) shall have the WSIB invest the funds in the account.

BACKGROUND

The Washington State Legislature passed Second Substitute House Bill 1087 during the 2019 legislative session to create a long-term care insurance benefit paid to eligible participants under the LTSS Trust Program. The program and benefits are funded by premiums collected from employees through payroll deductions. Legislative action during the 2022 session delayed premium assessments to July 1, 2023, from January 1, 2022, and delayed the availability of benefits under the program to July 1, 2026, from January 1, 2025.

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.

Strategic 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 order of the strategic investment objectives shall be:

1. Maintain benefit adequacy.
2. Maintain fund solvency and sustainability.
3. Limit fluctuations in premium rates.
4. Subject to the above, achieve a maximum return at a prudent level of risk.

Investment Performance Objectives

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

The program's fixed income investments are to be actively managed to meet or exceed the return of the Bloomberg U.S. Universal Index.

Investment Approach

Permissible Fixed Income Investments

Any and all fixed income securities are permissible unless specifically prohibited, including, but not limited to, the following:

1. U.S. Treasuries and Government Agencies.
2. Credit Bonds including bank deposits.
3. Investment Grade Mortgage-Backed Securities.
4. Investment Grade Asset-Backed Securities.
5. Investment Grade Commercial Mortgage-Backed Securities.

"Investment grade" is defined by the Bloomberg U.S. Global Family of Fixed Income Indices.

Other fixed income segments and instruments may be added from time to time as they are developed or deemed appropriate.

Sector Allocations

Sector allocations are to be managed within the ranges presented below. These targets are long-term in nature. Deviations may occur in the short term as a result of interim market conditions; however, if a range is exceeded, the portfolio must be rebalanced to the target allocations as soon as it is practical.

Target Sector Allocations	
	Range
U.S. Treasuries and Government Agencies	10 – 45%
Credit Bonds	10 – 80%
Mortgage-Backed Securities	0 – 45%
Asset-Backed Securities	0 – 10%
Commercial Mortgage-Backed Securities	0 – 10%
Total Market Value	100%

Sector allocations and performance measurement will be implemented once the fund reaches \$250 million.

Duration

The fixed income portfolio's duration range shall not exceed plus or minus 25 percent of the duration of the portfolio's performance benchmark, the Bloomberg U.S. Universal Index.

Market Changes and Portfolio Rebalancing

There are two instances when normal policy constraints can place unintended burdens on the portfolios through no action of the portfolio manager: changes in market interest rates and rating downgrades. It is not the intent of this policy to force sales or purchases of securities that harm the portfolio or are not in the best interest of stakeholders.

1. If the fixed income portfolio falls outside of guidelines for sector allocations, duration, or limits on below investment grade credits, or any combination of the three, due to changes in the market interest rates, and not actions by the portfolio managers, the portfolio can remain outside the guidelines until it can be rectified without harming the portfolio.
2. Credit rating downgrades by applicable rating agencies that cause the constraints regarding limits on total below investment grade holdings or single below investment grade issuer holdings to be violated do not require securities to be sold. However, additional below investment grade securities may not be purchased where the constraint has been violated.

If the cases in the above paragraphs occur, the Chief Investment Officer (CIO) must be notified in writing.

Risk Constraints

1. 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. RCW 43.33A.140 prohibits a corporate fixed income issue's cost from exceeding 3 percent of the LTSS Trust Account's market value at the time of purchase and its market value from exceeding 6 percent of the LTSS Trust Account's market value at any time. The WSIB will manage this fund with a more restrictive concentration constraint than required by the cited RCW. Exposure to any corporate issuer will not exceed 3 percent of the LTSS Trust Account's market value.
3. The par value of bonds from any one issuer with a below investment grade rating shall not exceed 1 percent of the total portfolio's par value.
4. Total market value of below investment grade credit bonds shall not exceed 15 percent of the market value of the fixed income portfolio. Non-rated bonds are permissible investments. WSIB staff will assign a rating to such bonds based on the most objective measures available.
5. Although below investment grade mortgage-backed, asset-backed, or commercial mortgage-backed securities may not be purchased, portfolio holdings that are downgraded to those levels or are no longer rated may continue to be held. The total market value of below investment grade mortgage-backed, asset-backed, and commercial mortgage-backed securities shall not exceed 5 percent of the market value of the fixed income portfolio.
6. If, in the judgment of the Senior Investment Officers for Fixed Income and the CIO, liquidity in the public markets is impaired, the sector and duration ranges described in this policy will be suspended. The suspension will allow for the sale of Treasuries and reduce the likelihood of forced sales of non-Treasury securities at impaired prices. The suspension of target ranges will take effect upon written notice from the CIO to the Chief Executive Officer. If suspended, the ranges will be reinstated as soon as it is feasible once liquidity returns.

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. In accordance with RCW 50.B.04.110, WSIB staff will meet at least annually with DSHS on the investment policy, earnings of the accounts, and related needs of the program.

RESPONSIBILITIES

Washington State Investment Board

The Board is responsible for approving the investment policy and reviewing the structure, strategy, and performance of the fund.

Public Markets Committee

The Committee is responsible for reviewing the investment policy and recommending any revisions to the 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 fund, and reporting performance and policy compliance to the Board, DSHS, and the LTSS investment strategy subcommittee.

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 06/16/22