2014

WASHINGTON STATE INVESTMENT BOARD

THIRTY-THIRD ANNUAL REPORT AUDITED FINANCIAL STATEMENTS

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LETTER OF TRANSMITTAL

This letter of transmittal serves as an introduction to the basic financial statements of state retirement plans and other public funds managed by Washington State Investment Board (WSIB) as of June 30, 2014. The financial statements included are for Washington's defined benefit retirement funds, insurance funds for Labor & Industries, Permanent Funds colleges and universities, the Guaranteed Education Tuition Program, and the Developmental Disabilities Endowment Fund managed by WSIB.

The financial statements are prepared separately due to the unique goals and objectives for each set of funds and each set undergoes a separate financial statement audit. The basic financial statements presented include the Statement of Net Investment Position, which reports by general asset categories and the related liabilities as of June 30, 2014, and the Statement of Changes in Net Investment Position, which reports the contributions to, withdrawals from, and investment earnings for the fiscal year ending June 30, 2014. Management's Discussion and Analysis is also included for each set of funds.

The financial statements, notes, and supplementary schedules were prepared by the WSIB's investment accounting unit in conformity with accounting principles generally accepted in the United States. To the best of our knowledge, the data provided in each section of this report is a fair and accurate representation in all material respects of the net investment position and changes in net investment position for the funds managed by the WSIB.

To provide strong oversight and ensure accuracy, the WSIB's financial statements are audited by independent certified public accountants. For the ninth consecutive year the external auditors have issued an unmodified ("clean") opinion on the financial statements for the year ended June 30, 2014. Prior to engaging independent auditors directly, the investment related balances and activity were included in the state of Washington Comprehensive Annual Financial Report issued by the Office of Financial Management and audited by the State Auditor's Office. The independent auditors' reports are located at the front of each set of financial statements for the year ended June 30, 2014.

Sincerely,

Theresa Whitmarsh

RETIREMENT FUNDS

petersonsullivan LLP
Certified Public Accountants
& Advisors

Independent Auditor's Report

To the Members of the Washington State Investment Board

Olympia, Washington

We have audited the accompanying financial statements of the Retirement Funds (Commingled Trust Fund and Plan-Specific Investments) of the State of Washington as managed by the Washington State Investment Board ("the Retirement Funds"), which comprise the statement of net investment position as of June 30, 2014, and the related statement of changes in net investment position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net investment position of the Retirement Funds as of June 30, 2014, and the changes in net investment position for the year then ended in conformity with accounting principles generally accepted in the United States.

petersonsullivan LLP
Certified Public Accountants
& Advisors

Emphasis of Matter – Investment Valuation

As explained in Note 1, the financial statements include investments valued at $29.6 billion (37% of net assets), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or, in the case of investments in partnerships, the general partners.

Management Discussion and Analysis

Accounting principles generally accepted in the United States require that the management's discussion and analysis preceding the financial statements be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

/S/ PETERSON SULLIVAN LLP

September 25, 2014

Management Discussion and Analysis

Management's Discussion and Analysis for the Retirement Funds of Washington State, managed by the Washington State Investment Board (WSIB), is presented as an introduction to the financial statements. It is meant to assist the reader in understanding the financial statements by providing an overall review of the financial activities during the year as well as to provide a comparison to the prior year's activities and results. In addition to the Retirement Funds, the WSIB also manages funds for other Washington State departments. This section of the report represents only the Retirement Funds portion. The Retirement Funds are the largest investor in funds managed by the WSIB.

The financial statements and footnotes follow this section of the report. The Statement of Net Investment Position provides information on the types of investments and the liabilities of the Retirement Funds. This information is summarized in Table 1. Table 1 also compares the asset, liability, and net investment position at June 30, 2014, with those at June 30, 2013. The Statement of Changes in Net Investment Position provides information on investment performance and other increases and decreases in the net investment position of the Retirement Funds for the year ended June 30, 2014. This information is summarized in Table 2. Table 2 also compares the financial activities of the Retirement Funds for the year ended June 30, 2014, with those of the year ended June 30, 2013. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements of the Retirement Funds.

Investment returns for the significant asset classes and in total for the current fiscal year compared to the prior fiscal year are as follows:

Investment Returns Commingled Trust Fund (CTF)		
Asset Class	FY 2014	FY 2013
Debt Securities	6.0%	0.8%
Equity Securities (*)	24.2%	17.6%
Alternative Assets (**)		
Private Equity	19.9%	13.6%
Real Assets	13.7%	19.3%
Tangible Assets	5.0%	-1.8%
Total Investment Return - CTF (**)	17.1%	12.4%

(*) Includes the returns of investments within the innovation portfolio

(**) Alternative asset returns are lagged by one quarter and cover a one year period ending March 31st

As shown in Table 1, the net investment position of the Retirement Funds increased by $11.5 billion during the fiscal year ended June 30, 2014, almost entirely due to current year market value increases. Net realized and unrealized gains within the portfolio increased net investment position by $11.2 billion. All asset classes experienced positive investment returns for the fiscal year. Distributions to the retirement system decreased net investment position by $(1.3) billion. Other investment income reinvested in the portfolio increased the net investment position by $1.5 billion.

Table 1 - Summarized Net Investment Position				
	2014	**2013**	**Dollar Change**	**Percent Change**
Cash and Cash Equivalents	$ 1,816,341,227	$ 1,579,718,796	$ 236,622,431	15.0%
Debt Securities	18,404,010,693	14,107,131,598	4,296,879,095	30.5%
Equity Securities	29,790,982,848	25,662,827,364	4,128,155,484	16.1%
Alternative Investments	29,640,341,821	26,479,629,732	3,160,712,089	11.9%
Total Investments	**79,651,676,589**	**67,829,307,490**	**11,822,369,099**	**17.4%**
Collateral Held Under Securities Lending Agreements	1,092,049,057	1,196,895,091	(104,846,034)	(8.8%)
Open Foreign Exchange Contracts Receivable	1,073,619,030	1,328,714,454	(255,095,424)	(19.2%)
Other Receivables	536,888,056	533,163,875	3,724,181	0.7%
Total Assets	**82,354,232,732**	**70,888,080,910**	**11,466,151,822**	**16.2%**
Obligations Under Securities Lending Agreements	1,092,049,057	1,196,895,091	(104,846,034)	(8.8%)
Open Foreign Exchange Contracts Payable	1,062,381,795	1,319,281,737	(256,899,942)	(19.5%)
Other Payables	759,246,187	384,332,611	374,913,576	97.5%
Total Liabilities	**2,913,677,039**	**2,900,509,439**	**13,167,600**	**0.5%**
Net Investment Position	**$ 79,440,555,693**	**$ 67,987,571,471**	**$ 11,452,984,222**	**16.8%**

The following summarizes changes within each grouping listed in Table 1:

- Cash and cash equivalents increased by $0.2 billion. This cash balance represents less than 3 percent of total invested balances. Initially, net investment income received from all asset classes is reinvested in money market funds. Net withdrawals by the Retirement Funds are also funded from cash balances. These balances fluctuate within policy ranges as asset allocation decisions are made with accumulated cash to longer term investments. Transfers from other asset classes and reinvested in money market funds totaled $1.4 billion. Withdrawals by the Retirement Funds to cover operating needs reduced liquid assets by $(1.3) billion. The remaining change was investment income reinvested in money market funds.
- Debt securities increased by $4.3 billion during the current fiscal year. Rebalancing transfers from other asset classes totaled $3.2 billion. Net realized and unrealized gains increased fixed income securities by $0.3 billion. The remaining increase was income received and reinvested within the fixed income portfolio and the impact of current and prior year unsettled investment trades. Debt securities returned 6.0 percent during the current fiscal year. The global low interest rate environment continued in Fiscal Year 2014 primarily driven by broadly accommodative central bank policy. The one-year period was characterized by two distinct fixed income environments. The first half of the fiscal year experienced an increased rate environment, driven by improving global economic conditions combined with concerns over potential tightening of U.S. monetary policy. In the second half of the fiscal year, however, rates declined as evidence of slowing global growth emerged and concern over geopolitical events grew. Investment grade corporate fixed income benefitted from spreads tightening which led to outperformance versus Treasuries. Default activity for investment grade issuers and spreads relative to Treasuries are low relative to historical standards.
- Equity securities increased by $4.1 billion, almost entirely due to positive returns in the equity markets. Net realized and unrealized gains increased equities by $5.6 billion. Proceeds from the sale of equity securities were transferred to other asset classes and reduced equity balances by $(2.1) billion. The remaining increase was income received and reinvested in equity securities. For the second consecutive year equity markets in developed countries

overcame much of the uncertainty that has plagued the macroeconomic environment recently and delivered positive returns. The Retirement Funds equity portfolio returned 24.2 percent during the current fiscal year. The U.S. equity market rose 25.2 percent, as measured by the MSCI U.S. IMI index, during the current fiscal year. Emerging markets continued to lag developed markets, mainly driven by concerns of an economic slowdown in China. Emerging markets equity returns were modest comparatively but still posted a 14.3 percent gain for the fiscal year.

- Alternative investments increased by $3.2 billion. Distributions received from general partners totaled $7.1 billion. The cash flow was used to fund capital calls of $(4.8) billion. Transfers of excess distributions and income to other asset classes decreased invested balances by $(2.5) billion. Net realized and unrealized gains for the current fiscal year increased alternative investments by $5.2 billion. The remaining increase was due to reinvestment of income within the fund. Investment returns in private equity, real estate, and tangible assets were 19.9 percent, 13.7 percent, and 5.0 percent, respectively. The private equity market environment continued to be decidedly favorable during Fiscal Year 2014, extending the prior year's run. While pricing trended up as a result of robust valuation across sectors , the availability of debt funding on extremely attractive terms continued to increase and Initial Public Offerings and trade sale conditions remained buoyant, allowing for sustained investment activity. The strong return from real estate in Fiscal Year 2014 resulted from a combination of appreciation due to high investor demand and the completion of a number of properties that had been under development. The primary drivers behind the Fiscal Year 2014 tangible asset return was income generation, portfolio management activities, and asset purchases and sales.
- Collateral held and obligations under securities lending agreements decreased by $(0.1) billion. Reported collateral balances in the Retirement Funds financial statements represent only cash received as collateral and reinvested. A significant increase in securities received as collateral occurred during the current fiscal year which increased the overall collateral balances and are not reflected in the balances in Table 1. The collateral guidelines were changed to allow for U.S. Agency Mortgage Backed Securities during the current fiscal year which increased the securities on loan, as well as total collateral received significantly. Equity securities continued to dominate the security type lent due to higher spreads and returns than fixed income securities.
- Open foreign exchange contracts receivable and payable decreased by $(0.3) billion. Investment managers use spot and forward currency contracts in connection with the cash overlay program, as well managing trade settlements in foreign markets. As with other trading related receivables and payables, the balances fluctuate based on the trading needs of the managers and have little correlation to invested balances.
- Other payables increased due to increases in unsettled security trades. Trading volumes can vary substantially based on the timing of additional cash flows, market movements, and rebalancing of asset classes within a portfolio. Accordingly, there is generally minimal correlation to invested balances.

As shown in Table 2, net investment income for the fiscal year increased by $5.2 billion, almost entirely due to increases in net realized and unrealized gains from the previous year. The annual return for the fiscal year ended June 30, 2014, was 17.1 percent compared to the prior fiscal year return of 12.4 percent. Net investment income and expenses remained relatively stable compared to the prior year. Distributions to the Retirement System remained at consistent levels for the year ended June 30, 2014, decreasing over the prior year by approximately 11 percent. Large increases in withdrawals, as seen in prior years due to reduced workforces and increasing pension payouts, stabilized during the past three fiscal years.

Table 2 - Summarized Changes in Net Investment Position			
	2014	**2013**	**Dollar Change**
Net Investment Income			
Investment Income	$ 1,799,662,206	$ 1,829,868,786	$ (30,206,580)
Net Realized and Unrealized Gains	11,213,148,819	5,965,143,595	5,248,005,224
Investment Expenses	(306,746,469)	(249,344,642)	57,401,827
Net Investment Income	**12,706,064,556**	**7,545,667,739**	**5,160,396,817**
Net Withdrawal by Retirement Plans	(1,253,080,334)	(1,402,808,177)	(149,727,843)
Net Investment Position - Beginning	**67,987,571,471**	**61,844,711,909**	6,142,859,562
Net Investment Position - Ending	**$ 79,440,555,693**	**$ 67,987,571,471**	**$ 11,452,984,222**

The fair value of the Retirement Funds' assets is directly impacted by the returns of the various capital markets within which the WSIB invests. However, one of the benefits of the diversification gained by investing across various investment types, as well as broadly within an asset class, is the reduction in aggregate volatility of the total investment portfolio. The WSIB makes the asset allocation decisions for the Retirement Funds based on recommendations from its staff and other investment experts. The Retirement Fund assets are rebalanced by WSIB across asset classes, as appropriate, when fair values of assets fall outside policy ranges.

Retirement Funds Statement of Net Investment Position - June 30, 2014

See notes to financial statements

	Commingled Trust Fund	Plan-Specific Investments	Total	Percent of Plan Assets
ASSETS				
Investments:				
CASH AND CASH EQUIVALENTS	$ 1,735,339,903	$ 81,001,324	$ 1,816,341,227	2.3%
DEBT SECURITIES				
Mortgage and Other Asset Backed Securities	1,623,712,132	-	1,623,712,132	
Corporate Bonds	8,397,009,231	-	8,397,009,231	
U.S. Government and Agency Securities	7,103,700,001	-	7,103,700,001	
Foreign Government and Agency Securities	1,279,589,329	-	1,279,589,329	
Total Debt Securities	18,404,010,693	-	18,404,010,693	23.1%
EQUITY SECURITIES				
Common and Preferred Stock	17,993,153,136	-	17,993,153,136	
Commingled Equity Trusts	10,749,795,358	-	10,749,795,358	
Depository Receipts and Other Miscellaneous	1,048,034,354	-	1,048,034,354	
Total Equity Securities	29,790,982,848	-	29,790,982,848	37.4%
ALTERNATIVE INVESTMENTS				
Private Equity	18,341,300,418	-	18,341,300,418	
Real Estate	9,931,786,511	-	9,931,786,511	
Tangible Assets (Infrastructure, Natural Resources)	1,367,254,892	-	1,367,254,892	
Total Alternative Investments	29,640,341,821	-	29,640,341,821	37.2%
Total Investments	79,570,675,265	81,001,324	79,651,676,589	100.0%
Collateral Held Under Securities Lending Agreements	1,092,049,057	-	1,092,049,057	
Investment Earnings Receivable	238,987,630	35,474	239,023,104	
Receivables for Investments Sold	297,864,952	-	297,864,952	
Open Foreign Exchange Contracts Receivable	1,073,619,030	-	1,073,619,030	
Total Assets	82,273,195,934	81,036,798	82,354,232,732	
LIABILITIES				
Obligations Under Securities Lending Agreements	1,092,049,057	-	1,092,049,057	
Investment Management Fees Payable	13,531,526	17,041	13,548,567	
Payable for Investments Purchased	745,697,620	-	745,697,620	
Open Foreign Exchange Contracts Payable	1,062,381,795	-	1,062,381,795	
Total Liabilities	2,913,659,998	17,041	2,913,677,039	
NET INVESTMENT POSITION	$ 79,359,535,936	$ 81,019,757	$ 79,440,555,693	

Retirement Funds Statement of Changes in Net Investment Position - Year Ended June 30, 2014

See notes to financial statements

	Commingled Trust Fund	Plan-Specific Investments	Total
Net Investment Income			
Investment Income:			
Interest, Dividends, and Other Investment Income	$ 1,788,932,796	$ 459,392	$ 1,789,392,188
Securities Lending Income	10,270,018	-	10,270,018
Net Realized Capital Gains	4,162,872,990	-	4,162,872,990
Unrealized Gains	7,050,275,829	-	7,050,275,829
Less:			
Investment Expenses	(290,464,476)	(215,639)	(290,680,115)
Securities Lending Broker Rebates Paid and Bank Fees	(3,665,803)	-	(3,665,803)
WSIB Operating Expenses	(12,400,551)	-	(12,400,551)
Net Investment Income	12,705,820,803	243,753	12,706,064,556
Net Withdrawal by Retirement Plans	-	(1,253,080,334)	(1,253,080,334)
Investments in Commingled Funds	608,894,197	(608,894,197)	-
Withdrawals from Commingled Funds	(1,857,695,498)	1,857,695,498	-
Increase (Decrease) in Net Investment Position	11,457,019,502	(4,035,280)	11,452,984,222
NET INVESTMENT POSITION, JUNE 30, 2013	67,902,516,434	85,055,037	67,987,571,471
NET INVESTMENT POSITION, JUNE 30, 2014	$ 79,359,535,936	$ 81,019,757	$ 79,440,555,693

Notes to Financial Statements

Note 1. Description of Funds and Significant Accounting Policies

Description of Funds

The Retirement Funds consist of retirement contributions from employer and employee participants and related earnings on those contributions, in the Washington State Retirement System. The Retirement System is administered by the Department of Retirement Systems (DRS). The financial statements present only the activity of the Retirement Funds as managed by the WSIB. The WSIB has exclusive control of the investment of all money invested in the Retirement Funds. The financial statements do not present the financial position or the results of operations of the WSIB or the DRS.

Basis of Accounting

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States for governments prescribed by the Governmental Accounting Standards Board (GASB) on the accrual basis of accounting.

Valuation of Investments

Investments are reported at fair value. Unrealized gains and losses are included as investment income in the Statement of Changes in Net Investment Position.

The net investment position of the Retirement Funds are valued on a monthly basis using the following sources:

Publicly Traded Securities (Corporate Stock, Commingled Funds, Exchange Traded Derivatives, and Fixed Income): Fair values are based on published market prices, quotations from national security exchanges, and security pricing services as of each month end closing of the New York Stock Exchange.

Limited Partnerships: The fair value of investments that are organized as limited partnerships and have no readily ascertainable fair value (such as private equity, real estate, and tangible assets) has been determined by management based on the individual investment's capital account balance, reported at fair value by the general partner, at the closest available reporting period, adjusted for subsequent contributions, distributions, management fees, and changes in values of foreign currency and published market prices for certain securities.

The limited partnerships' annual financial statements are audited by independent auditors. These investments are valued at $29.6 billion (37 percent of total investments) as of June 30, 2014. Because of the inherent uncertainties in estimating fair values, it is possible that the estimates will change in the near-term.

Private Equity Limited Partnerships: The fair value of individual capital account balances is based on the valuations reported by private equity partnerships using the following methodologies to value the underlying portfolio companies:

- Valuations of publicly traded portfolio companies are based on active exchanges using quoted market prices as of the close of trading for each month-end.

- When a portfolio company investment does not have a readily available market price, but has a return that is determined by reference to an asset for which a market price is readily available, valuations are based on the closing market price of the reference asset on the valuation date, adjusted for factors that affect the fair value of the investment held.
- When the portfolio company investments are private holdings and are not traded on active security exchanges, valuation methodologies used consist primarily of income and market approaches. The income approach involves a discounted cash flow analysis based on portfolio companies' projections. The market approach involves valuing a company at a multiple of a specified financial measure, generally Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) based on multiples at which comparable companies trade.

Real Estate Limited Partnerships: Real estate partnerships provide quarterly valuations based on the most recent capital account balance to WSIB management. Individual properties are valued by the partnerships at least annually, and are adjusted as frequently as quarterly if material market or operational changes have occurred. Properties are generally externally valued every one to five years, depending upon the partnership. Structured finance investments receive quarterly value adjustments by the partners, generally applying the assumption that all such positions will be held to maturity. Annual audits of most partnerships include a review of compliance with the partnership's valuation policies.

Revenue Recognition

Interest and dividend income are recognized when earned. Capital gains and losses are recognized on a trade-date basis. Purchases and sales of investments are also recorded on a trade-date basis.

Securities Lending

The collateral received under securities lending agreements, where the Retirement Funds have the ability to spend, pledge, or sell the collateral without borrower default, is included in the Statement of Net Investment Position. Liabilities resulting from these transactions are also included in each fund's net investment position. Additionally, costs associated with securities lending transactions, including broker commissions and lending fees paid to the custodian bank, are reported as investment expenses in the accompanying financial statements. The Statement of Net Investment Position does not include detailed holdings of securities lending collateral by investment classification.

Investments and Withdrawals

Investments and withdrawals are recorded when received or paid.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

Note 2. The Commingled Trust Fund (CTF) and Plan Specific Investments

The Commingled Trust Fund (CTF) is a diversified pool of investments which is used as an investment vehicle for 14 separate retirement plans and a supplemental insurance fund. These plans hold shares in the CTF, which represent a percentage ownership in the pool of investments. Plans are allowed to purchase or sell shares in the CTF, based on the fair value of the underlying assets, on the first business day of each month.

In addition to share ownership in the CTF, each retirement plan holds short-term investments. These short-term investments are referred to as "plan-specific investments" in the accompanying financial statements and are used to manage the cash needs of each retirement plan.

The CTF consists of the Public Employees' Retirement System (PERS) Plans 1 and 2/3; Teachers' Retirement System (TRS) Plans 1 and 2/3; School Employees' Retirement System (SERS) Plans 2/3; Law Enforcement Officers' and Firefighters' (LEOFF) Plans 1 and 2; Washington State Patrol (WSP) Retirement Systems Plans 1 and 2; Volunteer Firefighters (VFF), Public Safety Employees' Retirement System (PSERS) Plan 2, and the Higher Education Supplemental Insurance Fund. The CTF includes both the defined benefit and defined contribution portion of PERS Plan 3, SERS Plan 3 and TRS Plan 3, which are hybrid defined benefit/defined contribution plans. The participants also have the option to invest their defined contributions in other external options. These additional options are not reflected in the accompanying financial statements as the accounting responsibility lies with the DRS for these invested balances.

Note 3. Breakdown of Plan Assets

The Schedule of Participation presents the net investment position broken down by ownership by the various pension plans. "DC" means "defined contribution" and "DB" means "defined benefit," two different types of retirement plans.

Schedule of Participation

RETIREMENT PLANS:	Commingled Trust Fund	Plan-Specific Investments	Total Plan Net Assets	Percent of Plan Assets
HIGHER ED. SUPPLEMENTAL INSURANCE FUND	$ 20,378,080	$ 1,047,356	$ 21,425,436	Trace
LEOFF 1	5,715,215,533	2,404,598	5,717,620,131	7.2%
LEOFF 2	9,231,099,849	4,502,792	9,235,602,641	11.6%
PERS 1	7,937,134,800	3,510,129	7,940,644,929	10.0%
PERS 2/3 (DC and DB Plans)	29,375,145,343	19,455,184	29,394,600,527	37.0%
PUBLIC SAFETY EMPLOYEES 2	298,045,712	2,700,308	300,746,020	0.4%
SCHOOL EMPLOYEES 2/3 (DC and DB Plans)	5,057,917,317	7,254,295	5,065,171,612	6.4%
STATE PATROL 1	1,067,518,991	400,842	1,067,919,833	1.3%
STATE PATROL 2	28,948,184	700,199	29,648,383	Trace
TEACHERS 1	6,490,319,671	4,309,253	6,494,628,924	8.2%
TEACHERS 2/3 (DC and DB Plans)	13,938,165,003	34,734,706	13,972,899,709	17.6%
VOLUNTEER FIREFIGHTERS	199,647,453	95	199,647,548	0.3%
Total Net Investment Position at June 30, 2014	**$ 79,359,535,936**	**$ 81,019,757**	**$ 79,440,555,693**	**100.0%**

Note 4. Fees and Expenses

Investment fees and expenses are accounted for as a reduction of investment income or are netted directly from the asset value of the Retirement Fund investments. These fees include investment management fees and commissions, investment consultant fees, legal fees, and other investment management related expenses and are summarized in the Schedule of Investment Fees and Expenses. The WSIB operating expenses are charged to the funds based upon actual costs incurred to manage the investments. WSIB operating expenses are allocated to the funds under management based on relative market values, in accordance with state statutes.

Schedule of Investment Fees and Expenses

	Fees Paid	Netted Fees *	Total Fees	Net Assets Under Management
EQUITY SECURITIES:				
Public Equity - Emerging Markets	$ 12,140,051	$ 4,733,150	$ 16,873,201	$ 2,896,874,738
Active Equity - Global	33,107,216	-	33,107,216	11,386,945,688
Passive Equity - Global	1,495,875	-	1,495,875	15,864,604,749
ALTERNATIVE INVESTMENTS:				
Private Equity	194,459,881	7,596,426	202,056,307	18,390,523,821
Real Estate	19,875,800	13,825,787	33,701,587	9,931,661,371
Tangible Assets	22,084,583	-	22,084,583	1,367,248,874
CASH MANAGEMENT	2,375,654	-	2,375,654	1,291,930,069
DEBT SECURITIES	-	-	-	18,310,766,383
OTHER FEES:				
Consultants and Accounting	1,849,537	-	1,849,537	NA
Legal Fees	1,338,273	-	1,338,273	NA
Research Services	1,841,766	-	1,841,766	NA
Miscellaneous Fees	111,479	-	111,479	NA
	$ 290,680,115	$ 26,155,363	$ 316,835,478	$ 79,440,555,693

* Netted fees are included in unrealized gains (losses) in the accompanying financial statements

Note 5. Unfunded Commitments

The Retirement Funds have entered into a number of agreements that commit the Retirement Funds, upon request, to make additional investment purchases up to predetermined amounts. As of June 30, 2014, the Retirement Funds had a total of $20.0 billion in unfunded commitments in the following asset classes:

Private Equity	$10,398,140,858
Real Estate	$8,428,648,773
Innovation Portfolio	$26,776,363
Tangible Assets	$1,124,895,147

Note 6. Public Employees' Retirement System Plan 3, Teachers' Retirement System Plan 3, and the School Employees' Retirement System Plan 3

The financial statements only include the portion of PERS Plan 3, TRS Plan 3, and SERS Plan 3, which are invested in the CTF. The CTF does not include PERS Plan 3, TRS Plan 3, or SERS Plan 3 self-directed investments, which are accounted for and reported on by the DRS.

Note 7. Deposit and Investment Risk Disclosures

Custodial Credit Risk

Custodial credit risk is the risk that in the event a depository institution or counterparty fails, the Retirement Funds will not be able to recover the value of its deposits, investments, or collateral securities. As of June 30, 2014, investment securities (excluding cash, cash equivalents, and repurchase agreements held as securities lending collateral) are registered and held in the name of the WSIB for the benefit of the Retirement Funds, and are not exposed to custodial credit risk. There are no general policies relating to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. The risk is managed within the portfolios using effective duration, which is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Increases in prevailing interest rates generally translate into decreases in fair values of those investments. The Retirement Funds' fixed income investments are to be actively managed to meet or exceed the return of the Barclays Capital Universal Index, with volatility similar to or less than the index. The fixed income portfolio's duration is to be targeted within plus or minus 20 percent of the duration of the portfolio's performance benchmark. As of June 30, 2014, the Retirement Funds' duration was within the duration target of this index.

Schedule 1 and 2 provide information about the interest rate risks associated with the Retirement Funds' investments as of June 30, 2014. The schedules display various asset classes held by maturity in years, effective durations, and credit ratings. All debt securities are reported using the average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity for these securities, taking into account possible prepayments of principal.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Retirement Funds' investment policies limit the fixed income securities to investment grade or higher at the time of purchase. Investment grade securities are those fixed income securities with a Moody's rating of Aaa to Baa or a Standard and Poor's rating of AAA to BBB. The Retirement Funds' rated debt investments as of June 30, 2014, were rated by Moody's and/or an equivalent national rating organization. Investment types with multiple ratings are presented in Schedule 2 using the Moody's rating scale.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Retirement Funds' policy states no corporate fixed income issue shall exceed 3 percent of cost at the time of purchase or 6 percent of fair value thereafter of the fund, and no high yield issues shall exceed 1 percent of cost or 2 percent of fair value of the fund. There was no concentration of credit risk exceeding these policy guidelines as of June 30, 2014.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Retirement Funds do not have a formal policy to limit foreign currency risk. The Retirement Funds manage their exposure to fair value loss by requiring their international securities investment managers to maintain diversified portfolios by sector and by issuer to limit foreign currency and security risk. The Retirement Funds exposure to foreign currency risk is presented in Schedule 3 which provides information on deposits and investments held in various foreign currencies. Private equity and real estate are presented according to the financial reporting currency of the individual funds and is not a presentation of currency exposure relating to the underlying holdings. The schedule is stated in U.S. dollars.

Note 8. Securities Lending

Washington State law and WSIB policy permit Retirement Funds to participate in securities lending programs to augment investment income. The WSIB has entered into an agreement with State Street Corporation to act as agent for the WSIB in securities lending transactions. As State Street Corporation is the custodian bank for the WSIB, it is counterparty to securities lending transactions.

The fair value of the securities on loan at June 30, 2014 was approximately $3.6 billion. The securities on loan remain in the Statement of Net Investment Position in their respective categories. At June 30, 2014, cash collateral received totaling $1.1 billion is reported as a securities lending obligation, and the fair value of the re-invested cash collateral totaling $1.1 billion is reported as security lending collateral in the Statement of Net Investment Position. Securities received as collateral where the Retirement Funds do not have the ability to pledge or sell the collateral unless the borrower defaults are not reported as assets and liabilities in the Statement of Net Investment Position. Total securities received as collateral at June 30, 2014 was $2.6 billion.

Debt and equity securities were loaned and collateralized by the Retirement Funds' agent with cash and U.S. Government or U.S. Agency Securities including U.S. Agency Mortgage Backed Securities (exclusive of letters of credit). When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest of the loaned securities. The following table summarizes the securities held from reinvestment of cash collateral and securities received as collateral at June 30, 2014.

In Billions	Cash Collateral	Non Cash Collateral	Total
Mortgage Backed Securities	$ -	$ 2.4	$ 2.4
Repurchase Agreements	0.5	-	0.5
Yankee CD	0.2	-	0.2
Cash Equivalents and Other	0.4	0.2	0.6
Total Collateral Held	**$ 1.1**	**$ 2.6**	**$ 3.7**

During Fiscal Year 2014, securities lending transactions could be terminated on demand by either the Retirement Funds or the borrower. As of June 30, 2014, the cash collateral held had an average duration of 22.5 days and an average weighted final maturity of 82.2 days. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. No more than 20 percent of the total on loan value can be held by a specific borrower. Collateral investment guidelines specifically prohibit European domiciled holdings. There are no restrictions on the amount of securities that can be lent.

Securities were lent with the agreement they would be returned in the future for exchange of the collateral. State Street Corporation indemnified the WSIB by agreeing to purchase replacement securities, or return the cash collateral in the event a borrower failed to return the loaned securities, or pay distributions thereon. State Street Corporation's responsibilities included performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable federal regulations concerning securities lending.

During Fiscal Year 2014, there were no significant violations of legal or contractual provisions, no failures by any borrowers to return loaned securities or to pay distributions thereon. The Retirement Funds incurred no losses during Fiscal Year 2014, resulting from a default by either the borrowers or the securities lending agents.

Note 9. Derivatives

Retirement Funds are authorized to utilize various derivative financial instruments, including, financial futures, forward contracts, interest rate swaps, credit default swaps, equity swaps, and options. Derivative transactions involve, to varying degrees, market and credit risk. At June 30, 2014, the Retirement Funds held investments in financial futures and forward currency contracts that are recorded at fair value with changes in value recognized in investment income in the Statement of Changes in Net Investment Position in the period of change. For accounting and reporting purposes, the derivative instruments are considered investment derivatives and not hedging derivatives.

Derivatives are generally used to achieve the desired market exposure of a security, index or currency, adjust portfolio duration, or rebalance the total portfolio to the target asset allocation. Derivative contracts are instruments that derive their value from underlying assets, indices, reference interest rates, or a combination of these factors. A derivative instrument could be a contract negotiated on behalf of the Retirement Funds and a specific counterparty. This would typically be referred to as an over the counter (OTC) contract such as forward contracts. Alternatively, a derivative instrument, such as futures, could be listed and traded on an exchange and referred to as "exchange traded."

Inherent in the use of OTC derivatives, the Retirement Funds are exposed to counterparty credit risk on all open OTC positions. Counterparty credit risk is the risk that a derivative counterparty may fail to meet its payment obligation under the derivative contract. As of June 30, 2014, the Retirement Funds counterparty risk was deemed insignificant.

Futures contracts are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price. Gains and losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. The exchange assumes the risk that the counterparty will not pay and requires margin payments to minimize such risk. Futures are generally used to achieve the desired market exposure of a security or index or rebalance the total portfolio.

Forward currency contracts are agreements to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. These forward commitments are not standardized and carry counterparty credit risk due to the possible nonperformance by a counterparty. The maximum potential loss is the aggregate face value in U.S. dollars at the time the contract was opened. However, the likelihood of such loss is remote. At June 30, 2014, the Retirement Funds had outstanding forward currency contracts with a net unrealized gain of $14.8 million. At June 30, 2014, foreign exchange contracts receivable and payable reported on the statement of net investment position consisted primarily of forward currency contracts. The aggregate forward currency exchange contracts receivable and payable were $1.05 billion and $1.04 billion respectively. The contracts have varying maturity dates ranging from July 31, 2014, to September 17, 2014.

The Retirement Funds' fixed income portfolio held derivative securities consisting of collateralized mortgage obligations with a fair value of $163.3 million at June 30, 2014. Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of use and holdings of derivative securities by passive equity index fund managers is unavailable.

Derivatives which are exchange traded are not subject to credit risk. The counterparty credit ratings for forward currency contracts that are subject to credit risk outstanding at June 30, 2014, had a credit rating of no less than Baa1 using the Moody's rating scale.

	Classification	Changes in Fair Value - Included in Investment Income Amount	Fair Value at June 30, 2014 - Investment Derivative Amount	Notional
FUTURES CONTRACTS:				
Bond Index Futures	Investment	$ 20,160,669	$ 3,390,787	769,300,000
Equity Index Futures	Investment	18,310,381	(194,449)	540,580
		$ 38,471,050	$ 3,196,338	769,840,580
FORWARD CURRENCY CONTRACTS:				
AUSTRALIAN DOLLAR	Investment	$ (1,965,314)	$ (563,978)	29,266,118
CANADIAN DOLLAR	Investment	5,102,168	7,106,756	247,924,229
SWISS FRANC	Investment	790,044	(254,629)	29,396,900
DANISH KRONE	Investment	3,821,607	(50,200)	10,380,660
EURO CURRENCY	Investment	(12,830,454)	(1,103,879)	190,459,510
POUND STERLING	Investment	11,694,651	2,292,345	133,849,154
HONG KONG DOLLAR	Investment	(139,089)	2,758	17,526,444
NEW ISRAELI SHEKEL	Investment	(229,631)	(51,967)	5,181,622
JAPANESE YEN	Investment	4,713,272	(1,045,425)	133,181,426
NORWEGIAN KRONE	Investment	(46,482)	340,704	16,289,947
NEW ZEALAND DOLLAR	Investment	19,091,688	4,536,646	152,363,678
SWEDISH KRONA	Investment	132,076	(2,535)	70,158,540
SINGAPORE DOLLAR	Investment	756,773	(556)	67,826
MISCELLANEOUS	Investment	37,480	-	-
		$ 30,928,789	**$ 11,206,040**	**1,036,046,054**

Note 10. Summary of Investment Policy

Per RCW 43.33A.030, trusteeship of the Retirement Funds is vested within the voting members of the WSIB. The Legislature has established a standard of care for investment of these funds in RCW 43.33A.140. Additionally, the WSIB 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 following investment objectives.

The WSIB is authorized to invest in the following: U.S. Treasury Bills; discount notes; repurchase agreements; reverse repurchase agreements; banker's acceptances; commercial paper; guaranteed investment contracts; U.S. Government and Agency (government sponsored corporations eligible for collateral purposes at the Federal Reserve) securities; non-U.S. dollar bonds; investment grade corporate bonds; non-investment grade corporate bonds; publicly traded mortgage backed securities; privately placed mortgages; private placements of corporate debt; U.S. and foreign common stock; U.S. preferred stock; convertible securities; private equity including but not limited to investment corporations, partnerships, and limited liability companies for venture capital, leveraged buy-outs, real estate and other tangible assets, or other forms of private equity; asset backed securities; and derivative securities including futures, options, options on futures, forward contracts, and swap transactions. There have been no violations of these investment restrictions during Fiscal Year 2014.

Strategic and Performance Objectives

In accordance with RCW 43.33A.110, the portfolio is managed to achieve a maximum return at a prudent level of risk.

The Retirement Funds return objective is to exceed the return of the following measures:

- Passive Benchmark: a custom benchmark consisting of public market indices weighted according to asset allocation targets. Currently, the passive benchmark is comprised of 69 percent MSCI All Country World IMI Index Net with U.S. Gross and 31 percent Barclays Capital Universal; and
- Implementation Value Added: a custom benchmark consisting of the publicly-available indices, as defined in each asset class's policy, weighted according to asset allocation targets. This IVA benchmark differs from the passive benchmark as it is not an investable benchmark due to the un-investable premium added to the tangible assets and private equity passive benchmarks.

The Retirement Fund Asset Allocation

The WSIB establishes asset allocation targets that must be considered at all times when making investment decisions. The asset mix may deviate from the target. Deviations greater than predetermined acceptable levels require rebalancing back to the target. When an asset class exceeds its range, the goal of rebalancing will be to meet the target allocation within consideration of the other remaining asset classes.

Asset Class	Target	Policy Range	Asset Class Range
Fixed Income	20%	16% - 24%	+ or - 4%
Tangible Assets	5%	3% - 7%	+ or - 2%
Real Estate	15%	12% - 18%	+ or - 3%
Global Equity	37%	32% - 42%	+ or - 5%
Private Equity	23%	19% - 27%	+ or - 4%
Innovation Portfolio	0%	0% - 5%	+ 5%
Cash	0%	0% - 3%	+ 3%

The Retirement Funds goal is to reach the target (optimal portfolio) as quickly as possible, because of the illiquidity and time lagging nature of the Real Estate, Tangible Assets, and Private Equity investments, it is assumed that it will take time to achieve the target. It is anticipated the optimal target will be reached sometime in 2017. The asset allocation for the CTF is formally reviewed at least every four years. The allocation policy is reviewed more frequently if there has been a fundamental change in the structure of the capital markets or in the underlying cash flow or liability structure of the retirement systems.

Assets will be rebalanced across asset classes, as appropriate, when market values fall outside policy ranges. Rebalancing is accomplished by first using normal cash flows and second through reallocations of assets across asset classes. In cases of a major rebalancing, the Retirement Funds can utilize futures, forward contracts, and options in order to maintain exposure within each asset class and reduce transaction costs. Major rebalancing can occur to bring asset classes within their target ranges or when the Retirement Funds are transitioning managers.

Public Markets Equity

To achieve the performance and diversification objectives of the Retirement Funds, the Public Markets equity program seeks to:

- Achieve the highest return possible consistent with prudent risk management and the desire for downside protection with passive equity strategies as the default whenever strategies with better risk/return profiles cannot be identified;
- Provide diversification to the Retirement Funds' overall investment program;
- Maintain liquidity in public equity; and
- Maintain transparency into all public equity strategies, to the extent possible.

General Strategies

- The public markets equity portion of the Retirement Funds invests in publicly traded equities globally, including equity securities in the U.S., developed non-U.S., and emerging markets. The program has a global benchmark, currently the MSCI All Country World Investable Market Index (MSCI ACWI IMI).
- A mix of external managers approved by the WSIB Board will be used to implement the program.
- Passive management delivers broad diversified equity market exposure at low cost and is used when active managers cannot be identified and monitored appropriately. Passive management is also used when it is considered an appropriate alternative to active management, typically in more efficient markets.
- Active management is used when the Retirement Funds can identify, access, and monitor successful managers in markets that are less efficient. Active management seeks to enhance the risk/return profile of the program.

Asset Allocation

The U.S. and non-U.S. allocations for the public equity program are managed within the ranges presented below:

- Maintain a U.S. equity weight for the CTF within a range of +/- 5 percent of the U.S. weight in the specified global benchmark;
- Maintain a non-U.S. equity weight for the CTF within a range of +/- 5 percent of the non-U.S. weight in the specified global benchmark; and
- Maintain an aggregate emerging markets exposure in the public equity securities of -5 percent to +10 percent of the specified global market benchmark.

Fixed Income

The fixed income segment is to be managed to achieve the highest return possible consistent with the desire to control asset volatility, emphasize high yield to maturity opportunities to add value through active management, provide diversification to the overall investment program, and to meet or exceed the return of the Barclays Capital Universal Bond Index, with volatility similar to or less than the index.

Permissible fixed income market segments include:

- U.S. Treasuries and Government Agencies;
- Credit Bonds;
- Investment Grade Mortgage-Backed Securities as defined by Barclays Capital Global Family of Fixed Income Indices;
- Investment Grade Asset-Backed Securities as defined by Barclays Capital Global Family of Fixed Income Indices;
- Investment Grade Commercial Mortgage-Backed Securities as defined by Barclays Capital Global Family of Fixed Income Indices;

- Convertible Securities;
- Non-Dollar Bonds; and
- Washington State Housing Finance Commission taxable municipal bonds up to a total of $50 million with a maximum of $10 million purchased per year.

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

Fixed Income Portfolio Constraints

- RCW 43.33A.140 prohibits a corporate fixed income issues cost from exceeding 3 percent of the Retirement CTF's market value at the time of purchase, and its market value from exceeding 6 percent of the Retirement CTF's market value at any time. The Retirement Funds are managed with a more restrictive concentration constraint than required by the cited RCW. Exposure to any corporate issuer will not exceed 3 percent of the Retirement CTF Fixed Income Portfolio's market value.
- The par value of bonds from any one issuer with a below investment grade rating (as defined by Barclays Capital Global Family of Fixed Income Indices) shall not exceed 1 percent of the total portfolio's par value.
- Total market value of below investment grade credit bonds (as defined by Barclays Capital Global Family of Fixed Income Indices) shall not exceed 15 percent of the market value of the fixed income portfolio.
- 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.
- The fixed income portfolio's duration is to be targeted within plus or minus 20 percent of the duration of the portfolio's performance benchmark, the Barclays Capital Universal Index.

Target Allocations for the Fixed Income Sectors:

Range	
U.S. Treasuries and Government Agencies	10% – 45%
Credit Bonds	10% – 80%
Asset Backed Securities	0% – 10%
Commercial Mortgage Backed Securities	0% – 10%
Mortgage Backed Securities	5% – 45%

Private Equity Investing

The Retirement Funds can invest in any appropriate private equity investment opportunity which has the potential for returns superior to traditional investment opportunities and which is not prohibited by the WSIB's policies or by law. These investment types are generally divided into venture capital, corporate finance, growth equity, special situations, distressed, mezzanine, and other investments. Private equity investments are made either through limited partnership or direct investment vehicles.

The objective of the portfolio is to achieve superior total returns compared to traditional asset classes and is diversified away from traditional capital market risks. The portfolio is managed to meet or exceed the returns of the Russell 3000 (total time-weighed return including dividends) by 300 basis points in the long term. To meet the return and plan objectives, the private equity portfolio has diversified investments in companies in a variety of growth stages. The portfolio also includes a broad cross-section of opportunities in different industries and geographic regions.

Real Estate Program

The WSIB's Real Estate Program is an externally managed pool of selected partnership investments, intended to provide alternative portfolio characteristics when compared to traditional stock and bond investments. The majority of the WSIB's partnerships invest in institutional-quality real estate assets that are leased to third parties. The combination of income generated from bond-like lease payments, coupled with the hard asset qualities of commercial real estate, combine to generate returns that are expected to fall between the return expectations for fixed income and equities over the long term. The real estate portfolio is managed to deliver risk-adjusted returns that are consistent with the WSIB's long-term return expectations for the asset class. The Retirement Fund's real estate partnerships typically invest in private real estate assets that are held for long-term income and appreciation. Many of the Retirement Fund's investment partnerships do not involve co-investment with other financial entities, thereby providing the WSIB with control provisions, related transactions, and ongoing operational decisions for annual capital expenditures.

Volatility in the real estate portfolio is minimized through a combination of the following factors:

- The majority of the Retirement Fund's partners own real estate assets in a private investment form which are not subject to public market volatility;
- Real estate capital is diversified among a host of partners with varying investment styles;
- Partnership assets are invested in numerous economic regions, including foreign markets, and in various property types; and
- Retirement Fund's partners invest at different points within the properties' capital structure and life cycle.

The WSIB's current benchmark for real estate seeks to earn an 8 percent annual investment return over a rolling ten-year period.

Innovation Portfolio

The innovation portfolio investment strategy is to provide WSIB with the ability to invest in assets that fall outside of traditional asset classes and to provide the WSIB with comfort and demonstrated success before committing large dollar amounts to the strategy. The overall benchmark for the innovation portfolio is the weighted average of the underlying benchmark for each asset in the portfolio.

Currently, there are three investment strategies in the innovation portfolio, two involving private partnerships and one investing in public equities. Their individual holdings have been presented according to asset class on the Statement of Net Investment Position.

Tangible Assets

The primary goal of the tangible asset portfolio is to generate a long-term, high quality, stable income stream. The secondary goal is to generate appreciation approximately commensurate with inflation. The structure of the investments are primarily targeted to those funds, separate accounts, or tangible asset operating companies providing the WSIB with the most robust governance provisions related to acquisition, dispositions, debt levels, and ongoing operational decisions for annual capital expenditures. The tangible asset portfolio invests in a number of sectors, but the primary focus is infrastructure, timber, and natural resource rights (oil and natural gas).

The WSIB's current return objective for tangible assets calls for a target benchmark of 4 percent above the U.S. Consumer Price Index over a long-term investment horizon defined as at least five years.

Schedule 1: Schedule of Maturities and Credit Quality

Investment Type	Total Fair Value	Maturity: Less than 1 year	Maturity: 1-5 years	Maturity: 6-10 years	Maturity: More than 10 years	Effective Duration
Mortgage and Other Asset Backed Securities	$ 1,623,712,132	$ 422,133,942	$ 1,125,774,951	$ 75,799,282	$ 3,957	2.91
Corporate Bonds	8,397,009,231	371,687,775	3,739,741,465	3,028,327,454	1,257,252,537	5.86
U.S. Government and Agency Securities	7,103,700,001	900,426,981	5,528,754,786	475,115,227	199,403,007	3.30
Foreign Government and Agency Securities	1,279,589,329	96,606,055	415,248,687	568,976,643	198,757,944	5.01
Total Retirement Funds Investment Categorized	18,404,010,693	$ 1,790,854,753	$ 10,809,519,889	$ 4,148,218,606	$ 1,655,417,445	4.59
Investments Not Required to be Categorized						
Cash and Cash Equivalents	1,816,341,227					
Equity Securities	29,790,982,848					
Alternative Investments	29,640,341,821					
Total Investments Not Categorized	61,247,665,896					
Total Investments	$ 79,651,676,589					

Schedule 2: Additional Credit Rating Disclosures

Moodys Equivalent Rating	Investment Type: Total Fair Value	Mortgage and Other Asset Backed Securities	Corporate Bonds	U.S. Government and Agency Securities	Foreign Government and Agency Securities
Aaa	$ 9,570,007,123	$ 1,611,717,988	$ 579,365,017	$ 7,103,700,001	$ 275,224,117
Aa1	87,491,968	-	18,063,696	-	69,428,272
Aa2	283,178,235	-	199,171,135	-	84,007,100
Aa3	488,802,269	-	383,106,039	-	105,696,230
A1	439,755,736	1,285,380	438,470,356	-	-
A2	536,466,233	-	536,466,233	-	-
A3	812,460,244	-	717,510,488	-	94,949,756
Baa1	1,107,533,699	1,384,558	1,059,032,827	-	47,116,314
Baa2	1,672,143,981	9,324,206	1,495,374,069	-	167,445,706
Baa3	2,232,634,984	-	1,887,629,577	-	345,005,407
Ba1 or Lower	1,173,536,221	-	1,082,819,794	-	90,716,427
Total	$ 18,404,010,693	$ 1,623,712,132	$ 8,397,009,231	$ 7,103,700,001	$ 1,279,589,329

Schedule 3: Foreign Currency Exposure

Foreign Currency Denomination	Investment Type In U.S. Dollar Equivalent					
	Cash and Cash Equivalents	Debt Securities	Equity Securities	Alternative Assets	Total	Percent of Total Retirement Fund Assets
AUSTRALIAN DOLLAR	$ 9,232,315	$ 405,960,782	$ 522,681,095	$ 28,825,571	$ 966,699,763	1.2%
BRAZILIAN REAL	357,223	358,165,306	105,818,244	-	464,340,773	0.6%
CANADIAN DOLLAR	13,323,565	-	900,026,091	-	913,349,656	1.1%
SWISS FRANC	216,048	-	1,019,158,952	-	1,019,375,000	1.3%
CHILEAN PESO	-	124,855,313	4,029,416	-	128,884,729	0.2%
YUAN RENMINBI	277,867	168,980,529	-	-	169,258,396	0.2%
COLOMBIAN PESO	-	141,445,546	-	-	141,445,546	0.2%
DANISH KRONE	63,553	-	152,082,462	-	152,146,015	0.2%
EURO CURRENCY	34,862,389	-	3,336,480,952	2,633,626,902	6,004,970,243	7.5%
POUND STERLING	10,515,167	-	2,463,311,891	-	2,473,827,058	3.1%
HONG KONG DOLLAR	3,664,304	-	483,687,784	-	487,352,088	0.6%
HUNGARIAN FORINT	112,590	-	7,295,408	-	7,407,998	Trace
INDONESIAN RUPIAH	178,889	56,965,500	63,128,195	-	120,272,584	0.2%
ISRAELI SHEKEL	1,479,099	-	39,670,098	-	41,149,197	0.1%
INDIAN RUPEE	613,372	88,900,468	156,073,869	-	245,587,709	0.3%
JAPANESE YEN	16,239,380	-	1,938,907,815	-	1,955,147,195	2.5%
SOUTH KOREAN WON	227,298	-	115,452,307	-	115,679,605	0.1%
MEXICAN PESO (NEW)	38,281	129,025,245	52,257,485	-	181,321,011	0.2%
MALAYSIAN RINGGIT	187,455	66,274,064	37,492,681	-	103,954,200	0.1%
NIGERIAN NAIRA	-	47,740,307	-	-	47,740,307	0.1%
NORWEGIAN KRONE	3,519,386	-	86,444,036	-	89,963,422	0.1%
NEW ZEALAND DOLLAR	992,207	-	14,410,588	-	15,402,795	Trace
PHILIPPINE PESO	3,855	38,843,070	19,228,555	-	58,075,480	0.1%
POLISH ZLOTY	-	-	9,961,438	-	9,961,438	Trace
SWEDISH KRONA	2,864,831	-	346,171,355	-	349,036,186	0.4%
SINGAPORE DOLLAR	565,624	-	169,637,533	-	170,203,157	0.2%
THAILAND BAHT	132,624	47,116,315	48,118,868	-	95,367,807	0.1%
TURKISH LIRA	163,386	68,862,755	65,084,167	-	134,110,308	0.2%
NEW TAIWAN DOLLAR	1,834,674	-	146,808,114	-	148,642,788	0.2%
URUGUAYAN PESO	-	53,138,358	-	-	53,138,358	0.1%
SOUTH AFRICAN RAND	(20,682)	-	90,187,700	-	90,167,018	0.1%
Total Foreign Currency Exposure	$ 101,644,700	$ 1,796,273,558	$ 12,393,607,099	$ 2,662,452,473	$ 16,953,977,830	21.3%

LABOR AND INDUSTRIES' FUNDS

petersonsullivan LLP
Certified Public Accountants
& Advisors

Independent Auditor's Report

To the Members of the Washington State Investment Board

Olympia, Washington

We have audited the accompanying financial statements of the Labor & Industries' Funds of the State of Washington as managed by the Washington State Investment Board ("the Labor & Industries' Funds"), which comprise the statement of net investment position as of June 30, 2014, and the related statement of changes in net investment position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net investment position of the Labor & Industries' Funds as of June 30, 2014, and the changes in net investment position for the year then ended in conformity with accounting principles generally accepted in the United States.

petersonsullivan LLP
Certified Public Accountants
& Advisors

Management Discussion and Analysis

Accounting principles generally accepted in the United States require that the management's discussion and analysis preceding the financial statements be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

/S/ PETERSON SULLIVAN LLP

September 25, 2014

Management Discussion and Analysis

Management's Discussion and Analysis for the Labor & Industries Funds (L&I Funds) of Washington State, managed by the Washington State Investment Board (WSIB), is presented as an introduction to the financial statements. It is meant to assist the reader in understanding the financial statements by providing an overall review of the financial activities during the year as well as to provide a comparison to the prior year's activities and results. The WSIB manages funds for other Washington State departments. This section represents only the L&I Funds portion. The L&I Funds are the second largest pool of investments managed by the WSIB.

The financial statements and footnotes follow this section of the report. The Statement of Net Investment Position provides information on the types of investments and related assets and liabilities of the L&I Funds. This information is summarized in Table 1. Table 1 also compares the asset, liability, and net investment balances at June 30, 2014, with those at June 30, 2013. The Statement of Changes in Net Investment Position provides information on investment performance and other increases and decreases in the net investment position of the L&I Funds for the year ended June 30, 2014. This information is summarized in Table 2. Table 2 also compares the financial activities of the L&I Funds for the year ended June 30, 2014, with those of the year ended June 30, 2013. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements of the L&I Funds.

Investment returns for the significant asset classes and in total for the current fiscal year compared to the prior fiscal year are as follows:

Investment Returns Excluding Supplemental Pension Fund		
Asset Class	FY 2014	FY 2013
Debt Securities	6.7%	-0.5%
Equity Securities	24.0%	18.5%
Total Investment Return	8.4%	1.7%
Investment Return Supplemental Pension Fund	1.0%	0.5%

As shown in Table 1, the net investment position of the L&I Funds increased by $1,013.3 million during the fiscal year ended June 30, 2014. Interest and other net investment income reinvested in the fund totaled $475.0 million. Net realized and unrealized gains for the year increased net investment position by $644.9 million. Distributions to L&I reduced net investment position by $(106.6) million.

Table 1 - Summarized Net Investment Position				
	2014	2013	Dollar Change	Percent
Cash and Cash Equivalents	$ 306,092,303	$ 221,518,002	$ 84,574,301	38.2%
Debt Securities	12,309,622,801	11,429,577,938	880,044,863	7.7%
Equity Securities	1,886,836,111	1,730,469,587	156,366,524	9.0%
Total Investments	**14,502,551,215**	**13,381,565,527**	**1,120,985,688**	**8.4%**
Collateral Held Under Securities Lending Agreements	4,115,764	26,381,220	(22,265,456)	-84.4%
Investment Receivables - Other	148,117,088	108,982,693	39,134,395	35.9%
Total Assets	**14,654,784,067**	**13,516,929,440**	**1,137,854,627**	**8.4%**
Obligations Under Securities Lending Agreements	4,115,764	26,381,220	(22,265,456)	-84.4%
Investment Payables - Other	146,929,477	107,891	146,821,586	136083.3%
Total Liabilities	**151,045,241**	**26,489,111**	**124,556,130**	**470.2%**
Net Investment Position	**$ 14,503,738,826**	**$ 13,490,440,329**	**$ 1,013,298,497**	**7.5%**

The following summarizes the changes within each grouping listed in Table 1:

- Cash and Cash Equivalents increased by $84.6 million. This balance represents 2.1 percent of total invested balances and is within policy ranges. Cash can fluctuate within policy targets from year to year depending on trading volumes and the cash needs of the L&I Funds. Net investment income received from debt securities and cash is invested into money market funds and used within each asset class to reinvest in longer term securities as the cash becomes available. Net investment income retained in cash balances totaled $191.2 million. In addition, the net withdrawals of $(106.6) million by L&I were funded entirely from earnings deposited to money market funds.
- Debt securities increased by $880.0 million. Realized and unrealized gains increased this asset class by $270.1 million. During the current fiscal year, the fixed income portfolio was rebalanced and approximately $219.6 million was transferred from the equity portfolio. Debt securities purchased and not settled by June 30, 2014, increased debt security balances by $105.6 million. The remaining increase is from net investment income received and reinvested within the fixed income portfolio. During the current fiscal year the L&I Funds eliminated their exposure to U.S. Treasury Inflation Protection Securities (TIPS) and $1,753.9 million was transferred to other debt investment types. Debt securities returned 6.7 percent during the current fiscal year. The global low interest rate environment continued in the current fiscal year primarily driven by broadly accommodative central bank policy. The one-year period was characterized by two distinct fixed income environments. The first half of the fiscal year experienced an increased rate environment, driven by improving global economic conditions combined with concerns over potential tightening of U.S. monetary policy. In the second half of the fiscal year, however, rates declined as evidence of slowing global growth emerged and concern over geopolitical events grew. Investment grade corporate fixed income benefitted from spreads tightening which led to outperformance versus Treasuries. Default activity for investment grade issuers and spreads relative to Treasuries are low relative to historical standards.
- Equity securities increased by $156.4 million. Net realized and unrealized gains increased this asset class by $374.8 million due to positive investment returns in the public equity markets. During the current fiscal year, the equity portfolio was rebalanced and approximately $(219.6) million of equity securities were sold and the proceeds were reinvested in debt securities. The remaining increase in equity balances was due to net investment income reinvested in the equity portfolio. For the second straight year equity markets in developed countries overcame much of the uncertainty that has plagued the macroeconomic environment recently and delivered positive returns. The L&I U.S. equity portfolio returned 25.1 percent and the international equity portfolio returned 22.4 percent during the current fiscal year. The U.S. equity market rose 25.2 percent, as measured by the MSCI

U.S. IMI index, during the current fiscal year. Emerging markets continued to lag developed markets, mainly driven by concerns of an economic slowdown in China. Emerging markets equity returns were modest comparatively but still posted a 14.3 percent gain for the fiscal year.

- Cash Collateral held and obligations under securities lending agreements decreased by $(22.3) million. The lending environment in the current fiscal years favored the lending of equity securities which normally generate higher spreads and returns. The equity securities held by L&I are in commingled structures and are unavailable for lending. Lendable assets within the L&I portfolio consist of fixed income securities only which have limited spreads and lower utilization given the market environment in the current fiscal year.
- Other investment payables increased almost entirely due to open and unsettled security trades at year end. Trading volumes can vary substantially based on the timing of additional cash flows, market movements, and rebalancing of asset classes within a portfolio. Accordingly, there is generally minimal correlation to invested balances.

As shown in Table 2, the net amount withdrawn by L&I decreased by $(58.3) million. Net premiums collected by L&I increased due to an increase in hours reported during the year ended June 30, 2014. In addition, more hours were reported by businesses in higher rate classes. Both events resulted in more premiums collected by L&I which reduced the need to withdraw funds to pay claims.

Table 2 - Summarized Changes in Net Investment Position

	2014	2013	Dollar Change
Net Investment Income			
Interest, Dividends and Other Investment Income	$ 479,457,436	$ 467,084,400	$ 12,373,036
Net Realized Capital Gains	304,212,311	88,959,456	215,252,855
Unrealized Gains and Losses	340,670,717	(328,087,133)	668,757,850
Less:			
Investment Expenses	(2,032,967)	(2,037,474)	(4,507)
WSIB Operating Expenses	(2,408,775)	(2,045,133)	363,642
Net Investment Income	**1,119,898,722**	**223,874,116**	**896,024,606**
Net Amount Withdrawn	(106,600,225)	(164,899,867)	(58,299,642)
Net Investment Position - Beginning	**13,490,440,329**	**13,431,466,080**	**58,974,249**
Net Investment Position - Ending	**$ 14,503,738,826**	**$ 13,490,440,329**	**$ 1,013,298,497**

Net investment income increased from the prior fiscal year by $896.0 million almost entirely due to increases in realized and unrealized gains and losses. The L&I fund equity, fixed income, and total returns are presented in previous pages.

The fair value of L&I assets is directly impacted by the returns of the various capital markets within which the WSIB invests. The returns are expected to have a significant effect on financial position and results of operations in the future. However, one of the benefits of the diversification gained by investing across various investment types as well as broadly within an asset class is the reduction in aggregate volatility of the total investment portfolio. The WSIB, upon receiving recommendations from L&I staff, WSIB staff, and other investment experts, makes the asset allocation decisions for the L&I assets. The WSIB staff rebalances the L&I Funds' assets as markets fluctuate pursuant to WSIB policy.

Labor and Industries' Funds Statement of Net Investment Position - June 30, 2014

See notes to financial statements

	Accident Fund	Medical Aid Fund	Pension Reserves Fund	Supplemental Pension Fund	Total	Percent of Total
ASSETS						
Investments:						
CASH AND CASH EQUIVALENTS	$58,980,702	$162,615,429	$43,002,152	$41,494,020	$306,092,303	2.1%
DEBT SECURITIES						
Mortgage and Other Asset Backed Securities	819,852,566	650,906,223	596,129,331	11,150	2,066,899,270	
Corporate Bonds	3,261,904,587	2,840,375,647	2,512,657,244	45,273,193	8,660,210,671	
U.S. Government and Agency Securities	272,016,804	377,122,106	396,182,649	30,018,099	1,075,339,658	
Foreign Government and Agencies	215,936,045	135,519,706	153,696,702	2,020,749	507,173,202	
Total Debt Securities	4,569,710,002	4,003,923,682	3,658,665,926	77,323,191	12,309,622,801	84.9%
EQUITY SECURITIES						
Commingled Investment Trusts	575,631,428	832,811,484	478,393,199	-	1,886,836,111	
Total Equity Securities	575,631,428	832,811,484	478,393,199	-	1,886,836,111	13.0%
Total Investments	5,204,322,132	4,999,350,595	4,180,061,277	118,817,211	14,502,551,215	100.0%
Collateral Held Under Securities Lending Agreements	4,115,764	-	-	-	4,115,764	
Investment Earnings Receivable	42,521,356	31,040,309	33,129,698	204,509	106,895,872	
Receivable for Investments Sold	13,092,930	28,127,256	1,030	-	41,221,216	
Total Assets	5,264,052,182	5,058,518,160	4,213,192,005	119,021,720	14,654,784,067	
LIABILITIES						
Obligations Under Securities Lending Agreements	4,115,764	-	-	-	4,115,764	
Accounts Payable	37,979	55,181	23,520	9,361	126,041	
Payable for Investments Purchased	25,014,750	111,802,586	9,986,100	-	146,803,436	
Total Liabilities	29,168,493	111,857,767	10,009,620	9,361	151,045,241	
NET INVESTMENT POSITION	$ 5,234,883,689	$ 4,946,660,393	$ 4,203,182,385	$ 119,012,359	$ 14,503,738,826	

Labor and Industries' Funds Statement of Changes in Net Investment Position - Year Ended June 30, 2014

See notes to financial statements

	Accident Fund	Medical Aid Fund	Pension Reserves Fund	Supplemental Pension Fund	Total
Net Investment Income					
Investment Income:					
Interest, Dividends and Other Investment Income	$ 188,395,163	$ 145,323,818	$ 144,683,129	$ 1,055,326	$ 479,457,436
Net Realized Capital Gains and Losses	90,754,945	161,139,459	52,334,314	(16,407)	304,212,311
Unrealized Gains	129,153,472	77,289,372	133,960,641	267,232	340,670,717
Less:					
Investment Expenses	(748,022)	(668,265)	(492,633)	(124,047)	(2,032,967)
WSIB Operating Expenses	(869,270)	(821,526)	(695,816)	(22,163)	(2,408,775)
Net Investment Income	406,686,288	382,262,858	329,789,635	1,159,941	1,119,898,722
Net Amount Contributed (Withdrawn)	8,043,270	(45,143,474)	(74,442,184)	4,942,163	(106,600,225)
Increase in Net Investment Position	414,729,558	337,119,384	255,347,451	6,102,104	1,013,298,497
Net Investment Position - June 30, 2013	4,820,154,131	4,609,541,009	3,947,834,934	112,910,255	13,490,440,329
Net Investment Position - June 30, 2014	$ 5 234 883 689	$ 4 946 660 393	$ 4 203 182 385	$ 119 012 359	$ 14 503 738 826

Notes to Financial Statements

Note 1. Description of Funds and Significant Accounting Policies

Description of Funds

The L&I Funds consist mainly of the investment of insurance premiums collected from employers in Washington State. The financial statements present only the activity of the L&I Funds as managed by the WSIB. The WSIB has exclusive control of the investments held by the L&I Funds. The financial statements do not present the financial position and results of operations of the WSIB or L&I.

Basis of Accounting

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States for governments prescribed by the Governmental Accounting Standards Board (GASB) on the accrual basis of accounting.

Valuation of Investments

Investments are reported at fair value. Fair values are based on published market prices, quotations from national security exchanges, and security pricing services. Investments are adjusted to fair values monthly. Unrealized gains and losses are included as investment income in the Statement of Changes in Net Investment Position.

Revenue Recognition

Interest and dividend income are recognized when earned. Capital gains and losses are recognized on a trade date basis. Purchases and sales of investments are also recorded on a trade date basis.

Securities Lending

The collateral received under securities lending agreements, where the funds have the ability to spend, pledge, or sell the collateral without borrower default, is included in the Statement of Net Investment Position. Liabilities resulting from these transactions are also recorded. Additionally, costs associated with securities lending transactions, including broker commissions and lending fees paid to the custodian bank, are reported as investment expenses in the accompanying financial statements. The Statement of Net Investment Position does not include detailed holdings of securities lending collateral by investment classification. Securities lending income received by the L&I Funds during Fiscal Year 2014 was $1,116,160. Securities lending expenses during the fiscal year totaled $44,877.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

Contributions and Withdrawals

Contributions and withdrawals are recorded when received or paid.

Note 2. Fees and Expenses

Investment fees and expenses are accounted for as a reduction of investment income or are netted directly from the asset value of the L&I Fund's investments. These fees include investment management fees and commissions, investment consultant fees, legal fees, and other investment management related expenses. The WSIB operating expenses are charged to the funds based upon actual costs incurred to manage the investments. WSIB operating expenses are allocated to the funds under management based on relative market values, in accordance with state statutes.

Note 3. Deposit and Investment Risk Disclosures

Custodial Credit Risk

Custodial credit risk is the risk that in the event a depository institution or counterparty fails, the L&I Funds will not be able to recover the value of its deposits, investments, or collateral securities. As of June 30, 2014, investment securities (excluding cash, cash equivalents, and repurchase agreements held as securities lending collateral) are registered and held in the name of the WSIB for the benefit of the L&I Funds, and are not exposed to custodial credit risk. There are no general policies relating to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. The risk is managed within the portfolios using effective duration which is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Increases in prevailing interest rates generally translate into decreases in fair values of those investments. As of June 30, 2014, the L&I Funds' portfolio durations were within the duration targets documented in Note 6.

Schedule 1 and 2 provide information about the interest rate risks associated with the L&I Funds' investments as of June 30, 2014. The schedules display various asset classes held by maturity in years, effective durations, and credit ratings. All debt securities are reported using the average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity for these securities, taking into account possible prepayments of principal.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The L&I Funds' investment policies limit the fixed income securities to investment grade or higher at the time of purchase. Investment grade securities are those fixed income securities with a Moody's rating of Aaa to Baa or a Standard and Poor's rating of AAA to BBB.

The L&I Funds' rated debt investments as of June 30, 2014, were rated by Moody's and/or an equivalent national rating organization. Investment types with corresponding ratings are presented in Schedule 2 using the Moody's rating scale.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The L&I Funds' policy states that corporate fixed income issues cost shall not exceed 3 percent of the Fund's fair value at the time of purchase, nor shall its fair value exceed 6 percent of the Fund's fair value at any time. There was no concentration of credit risk as of June 30, 2014.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The L&I Funds do not have a formal policy to limit foreign currency risk. The only securities held by the L&I Funds with potential foreign currency exposure at June 30, 2014, consists of $682.4 million invested in an international commingled equity index fund.

Note 4. Securities Lending

Washington State law and WSIB policy permit L&I Funds to participate in securities lending programs to augment investment income. The WSIB has entered into an agreement with State Street Corporation to act as agent for the WSIB in securities lending transactions. As State Street Corporation is the custodian bank for the WSIB, it is counterparty to securities lending transactions.

The fair value of the securities on loan at June 30, 2014, was approximately $69.4 million. The securities on loan remain in the Statement of Net Investment Position in their respective categories. At June 30, 2014, cash collateral received totaling $4.1 million is reported as a securities lending obligation, and the fair value of the re-invested cash collateral totaling $4.1 million is reported as security lending collateral in the Statement of Net Investment Position. Securities received as collateral where the L&I Funds do not have the ability to pledge or sell the collateral unless the borrower defaults are not reported as assets and liabilities in the Statement of Net Investment Position. Total securities received as collateral at June 30, 2014, was $66.9 million.

Debt securities were loaned and collateralized by the L&I Funds' agent with cash and U.S. Government or U.S. Agency Securities including U.S. Agency Mortgage Backed Securities (exclusive of letters of credit). When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest of the loaned securities. The following table summarizes the securities held from reinvestment of cash collateral and securities received as collateral at June 30, 2014.

In Millions:	Cash Collateral	Non Cash Collateral	Total
Mortgage Backed Securities	$ -	$ 66.9	$ 66.9
Repurchase Agreements	2.1	-	2.1
Yankee CD	0.8	-	0.8
Cash Equivalents and Other	1.2	-	1.2
Total Collateral Held	$ 4.1	$ 66.9	$ 71.0

During Fiscal Year 2014, securities lending transactions could be terminated on demand by either the L&I Funds or the borrower. As of June 30, 2014, the cash collateral held had an average duration of 22.5 days and an average weighted final maturity of 82.2 days. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. No more than 20 percent of the total on loan value can be held by a specific borrower. Collateral investment guidelines specifically prohibit European domiciled holdings. There are no restrictions on the amount of securities that can be lent.

Securities were lent with the agreement they would be returned in the future for exchange of the collateral. State Street Corporation indemnified the WSIB by agreeing to purchase replacement securities, or return the cash collateral in the event a borrower failed to return the loaned securities, or pay distributions thereon. State Street Corporation's responsibilities included performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable federal regulations concerning securities lending.

During Fiscal Year 2014, there were no significant violations of legal or contractual provisions, no failures by any borrowers to return loaned securities or to pay distributions thereon. Further, the L&I Funds incurred no losses during Fiscal Year 2014, resulting from a default by either the borrowers or the securities lending agents.

Note 5. Derivatives

L&I Funds are authorized to utilize various derivative financial instruments, including collateralized mortgage obligations, financial futures, forward contracts, interest rate and equity swaps, and options to manage its exposure to fluctuations in interest and currency rates while increasing portfolio returns. Derivative transactions involve, to varying degrees, market and credit risk. The L&I Funds mitigate market risks arising from derivative transactions by requiring collateral in cash and investments to be maintained equal to the securities positions outstanding, and thereby prohibiting the use of leverage or speculation. Credit risks arising from derivative transactions are mitigated by selecting and monitoring creditworthy counterparties and collateral issuers.

Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of use and holdings of derivative securities by passive equity index fund managers is unavailable. At June 30, 2014, the only derivative securities held directly by the L&I Funds were collateralized mortgage obligations of $1.5 billion.

Note 6. Summary of Investment Policy

Under RCW 43.33A.030, trusteeship of the L&I Funds is vested in the voting members of the WSIB. The Legislature has established a standard of care for investment of these funds in RCW 43.33A.140. Additionally, the WSIB 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 following investment objectives:

Strategic Objectives

In accordance with RCW 43.33A.110, these portfolios are to be managed to limit fluctuations in the industrial insurance premiums, and subject to this purpose, achieve a maximum return at a prudent level of risk. Based on this requirement, the order of the objectives shall be:

- Maintain the solvency of the funds;
- Maintain premium rate stability;
- Ensure sufficient assets are available to fund the expected liability payments; and
- Subject to those above, achieve a maximum return at a prudent level of risk.

Performance Objectives

The performance objectives are intended to provide the L&I Funds with a way to measure the success of this investment policy, the overall asset allocation strategy, and the implementation of that strategy over time. First and foremost, the performance of the investment portfolios shall be judged relative to the strategic objectives. With the first three criteria met, the actual rates of return of the portfolios will be compared to the Comparable Market Index (CMI) for each fund. The CMIs are developed and calculated with the goal to construct a hypothetical passive portfolio with the duration, asset allocation, and appropriate mix of fixed income sectors based on the individual targets for each L&I Fund. The return for each fund's portfolio should not be significantly different from that of its CMI over the long term.

Portfolio Constraints

All assets under the management of the WSIB are to be invested to maximize return at a prudent level of risk in accordance with RCW 43.33A.110, and RCW 43.33A.140, which state, in part, that the WSIB is to "...establish investment policies and procedures designed to attempt to limit fluctuations in industrial insurance premiums, and subject to this purpose, to maximize return at a prudent level of risk." and to "invest and manage the assets entrusted to it with reasonable care, skill, prudence and diligence under circumstances then prevailing which a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an activity of like character and purpose."

No corporate fixed income issue's cost shall exceed 3 percent of the Fund's fair market value.

Asset Allocation

Debt Securities	Equity Securities
Accident Fund	
90%±2	10%±2
Pension Reserve Fund	
90%±2	10%±2
Medical Aid Fund	
85%±3	15%±3
Supplemental Pension Fund	
100%	NA

Asset allocation will be reviewed every 3-4 years, or sooner, if there are significant changes in funding levels or the liability durations.

Market conditions, funding status, and liability assumptions are dynamic, not static; therefore, WSIB staff meets quarterly with L&I staff to review the investment portfolio.

Assets will be rebalanced across asset classes when the fair value of the assets falls outside the policy ranges. The timing of any rebalancing will be based on market opportunities, cash flows, and the consideration of transaction costs; therefore, they need not occur immediately.

Asset Class Structure

Asset class structure is established by the WSIB with guidelines for staff to move assets in order to achieve the Fund's overall objectives.

Equity

Equity Allocation	Target	Range
U.S. Equity	60%	55%-65%
International Equity	40%	35%-45%

The benchmark and structure for U.S. equities will be the broad U.S. stock market as defined by the Morgan Stanley Capital International U.S. Investable Market Index (MSCI US IMI). The benchmark and structure for international equities will be the Morgan Stanley Capital International All Country World Ex U.S. Investable Market Index (MSCI ACW Ex U.S. IMI). Both portfolios will be 100 percent passively managed in commingled index funds. The commingled funds may use futures for hedging or establishing a long position.

Fixed Income

The fixed income portfolios' structure will vary widely among funds depending upon the required duration target.

Accident Fund (608): within plus or minus 20 percent of a duration target of 7 years.
Pension Reserve Fund (610): within plus or minus 20 percent of a duration target of 7 years.
Medical Aid Fund (609): within plus or minus 20 percent of a duration target of 6 years.
Supplemental Pension Fund (881): a duration of less than 2 years.

The duration targets will be reviewed every three years, or sooner, if there are significant changes in the funding levels or the liability durations.

It is the goal of the fixed income portfolios to match the target durations. Although there may be differences from the targets due to market conditions, over any extended period of time those differences should not be material.

Permissible Fixed Income Investments

- U.S. Treasuries and Government Agencies
- Credit Bonds
- Investment Grade Mortgage Backed Securities, as defined by Barclays Capital Global Family of Fixed Income Indices
- Investment Grade Asset Backed Securities, as defined by Barclays Capital Global Family of Fixed Income Indices
- Investment Grade Commercial Mortgage Backed Securities, as defined by Barclays Capital Global Family of Fixed Income Indices
- Investment Grade Non-U.S. Dollar Bonds

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 portfolios must be rebalanced as soon as it is practical to the target allocations.

Target allocations for the Fixed Income Sectors:	
U.S. Treasuries and Government Agencies	5% - 25%
Credit Bonds	20% - 80%
Asset Backed Securities	0% - 10%
Commercial Mortgage Backed Securities	0% - 10%
Mortgage Backed Securities	0% - 25%

Total market value of below investment grade credit bonds (as defined by Barclays Capital Global Family of Fixed Income Indices) shall not exceed 5 percent of the total market value of the funds. Although below investment grade mortgage backed, asset backed, and commercial mortgage backed securities may not be purchased, portfolio holdings that are downgraded to those levels or are no longer rated and 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 total market value of the funds.

Schedule 1: Schedule of Maturities and Credit Ratings

Investment Type	Total Fair Value	Maturity: Less than 1 year	Maturity: 1-5 years	Maturity: 6-10 years	Maturity: More than 10 years	Effective Duration	Credit Rating
Mortgage and Other Asset Backed Securities	$ 2,066,899,270	$ 76,875,339	$ 1,667,483,707	$ 264,416,864	$ 58,123,360	3.63	Schedule 2
Corporate Bonds	8,660,210,671	275,063,023	3,494,935,449	1,668,569,025	3,221,643,174	7.59	Schedule 2
U.S. Government and Agency Securities	1,075,339,658	70,021,699	974,154,261	31,163,698	-	3.46	Aaa
Foreign Government and Agencies	507,173,202	48,135,591	213,168,044	190,870,457	54,999,110	5.40	Schedule 2
	12,309,622,801	$ 470,095,652	$ 6,349,741,461	$ 2,155,020,044	$ 3,334,765,644	6.48	
Investments Not Required to be Categorized							
Commingled Investment Trusts	1,886,836,111						
Cash and Cash Equivalents	306,092,303						
Total Investments Not Categorized	2,192,928,414						
Total L&I Funds Investments	$ 14,502,551,215						

Schedule 2: Additional Credit Ratings Disclosure

Moody's Equivalent Credit Rating	Mortgage and Other Asset Backed Securities	Corporate Bonds	Foreign Government and Agency Securities	Total Fair Value
Aaa	$ 2,016,471,663	$ 381,324,325	$ 212,325,322	$ 2,610,121,310
Aa1	-	-	-	-
Aa2	-	52,623,115	95,856,947	148,480,062
Aa3	50,427,607	1,152,990,706	62,583,342	1,266,001,655
A1	-	791,002,789	38,805,591	829,808,380
A2	-	1,176,508,470	-	1,176,508,470
A3	-	1,293,548,518	-	1,293,548,518
Baa1	-	1,276,627,720	17,340,000	1,293,967,720
Baa2	-	1,502,409,341	10,865,000	1,513,274,341
Baa3	-	757,246,597	69,397,000	826,643,597
Ba1 or Lower	-	275,929,090	-	275,929,090
Total	$ 2,066,899,270	$ 8,660,210,671	$ 507,173,202	$ 11,234,283,143

PERMANENT FUNDS

petersonsullivan LLP
Certified Public Accountants
& Advisors

Independent Auditor's Report

To the Members of the Washington State Investment Board

Olympia, Washington

We have audited the accompanying financial statements of the Permanent Funds (American Indian Scholarship Endowment, Agricultural School, Normal School, Common School, Scientific School, and State University) of the State of Washington as managed by the Washington State Investment Board ("the Permanent Funds"), which comprise the statement of net investment position as of June 30, 2014, and the related statement of changes in net investment position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net investment position of the Permanent Funds as of June 30, 2014, and the changes in net investment position for the year then ended in conformity with accounting principles generally accepted in the United States.

peterson sullivan LLP
Certified Public Accountants
& Advisors

Management Discussion and Analysis

Accounting principles generally accepted in the United States require that the management's discussion and analysis preceding the financial statements be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

/S/ PETERSON SULLIVAN LLP

September 25, 2014

Management Discussion and Analysis

Management's Discussion and Analysis for the Permanent Funds of Washington State, managed by the Washington State Investment Board (WSIB), is presented as an introduction to the financial statements. It is meant to assist the reader in understanding the financial statements by providing an overall review of the financial activities during the year as well as to provide a comparison to the prior year's activities and results. The WSIB manages funds for other Washington State agencies. This section of the report represents only the Permanent Funds portion.

The financial statements and footnotes follow this section of the report. The Statement of Net Investment Position provides information on the types of investments, assets and liabilities of the Permanent Funds. This information is summarized in Table 1. Table 1 also compares the asset, liability, and net investment balances at June 30, 2014, with those at June 30, 2013. The Statement of Changes in Net Investment Position provides information on investment performance and other increases and decreases in the net investment position of the Permanent Funds for the year ended June 30, 2014. This information is summarized in Table 2. Table 2 also compares the financial activities of the Permanent Funds for the year ended June 30, 2014, with those of the year ended June 30, 2013. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements of the Permanent Funds.

Investment returns for the significant asset classes and in total for each fund for the current fiscal year compared to the prior fiscal year are as follows:

Investment Returns by Asset Class	FY 2014	FY 2013
Debt Securities	4.1%	0.1%
Equity Securities	24.6%	18.5%

Investment Returns by Fund	FY 2014	FY 2013
American Indian Scholarship Endowment	3.9%	0.1%
Agricultural School	9.7%	3.3%
Normal School	9.6%	3.2%
Common School	10.0%	4.0%
Scientific School	9.7%	3.4%
State University	9.7%	3.3%

As shown in Table 1, the net investment position of the Permanent Funds increased by $62.8 million during the fiscal year ended June 30, 2014. Contributions from the Department of Natural Resources (DNR) and Higher Education Coordinating Board increased net investment position by $14.5 million, all of which was invested in equity securities. Net realized and unrealized gains and losses increased net investment position by $48.2 million. Distributions to beneficiary funds reduced net investment position by $(39.5) million. The remaining increase represents other net investment income reinvested within each portfolio.

Table 1 - Summarized Net Investment Position

	2014	2013	Dollar Change	Percent Change
Cash and Cash Equivalents	$ 2,282,162	$ 1,629,561	$ 652,601	40.0%
Debt Securities	660,835,672	674,815,397	(13,979,725)	(2.1%)
Equity Securities	315,920,017	239,798,331	76,121,686	31.7%
Total Investments	**979,037,851**	**916,243,289**	**62,794,562**	**6.9%**
Earnings Receivable	3,281,816	2,803,072	478,744	17.1%
Total Assets	**982,319,667**	**919,046,361**	**63,273,306**	**6.9%**
Distributions Payable	(3,281,760)	(2,803,054)	478,706	17.1%
Net Investment Position	**$ 979,037,907**	**$ 916,243,307**	**$ 62,794,600**	**6.9%**

The following summarizes the changes within each grouping listed within Table 1:

- Cash and cash equivalents increased by $0.7 million. This cash balance represents less than 1 percent of total invested balances and is within the policy range. Cash is held to cover distributions to beneficiary funds and can fluctuate from period to period. The rebalancing from fixed income to equities over the prior two years was fully completed in Fiscal Year 2014 and cash balances have returned to lower levels.
- Debt securities decreased by $(14.0) million. Realized and unrealized losses for the fiscal year totaled $(2.5) million, which decreased fixed income net invested balances. Debt securities returned 4.1 percent during the current fiscal year which was primarily driven by the interest income generated from bonds held throughout the year. Net earnings reinvested in the fund, and subsequently distributed to the beneficiary funds totaled $28.8 million. Transfers of bond maturity proceeds to the equity portfolio decreased debt securities by $(11.5) million. The global low interest rate environment continued in Fiscal Year 2014 primarily driven by broadly accommodative central bank policy. The one-year period was characterized by two distinct fixed income environments. The first half of the fiscal year experienced an increased rate environment, driven by improving global economic conditions combined with concerns over potential tightening of U.S. monetary policy. In the second half of the fiscal year, however, rates declined as evidence of slowing global growth emerged and concern over geopolitical events grew. Investment grade corporate fixed income benefitted from spreads tightening which led to outperformance versus Treasuries. Default activity for investment grade issuers and spreads relative to Treasuries are low relative to historical standards.
- Equity securities increased by $76.1 million. Transfers of bond maturity proceeds from debt securities, contributions from the DNR, and excess cash increased this asset class by $25.4 million during the current fiscal year. Realized and unrealized gains increased equity securities by $50.7 million. Net equity earnings received and subsequently distributed to the beneficiary funds totaled $10.9 million. The Commingled Monthly Equity Fund (CMEF) is invested in U.S. equity securities which over the long term have provided inflation protection, and invested in a strategy that aims to earn higher dividend yield to augment distributions to the beneficiary funds. Overall, the U.S. equity markets, as measured by the Russell 3000, returned strong performance of 25.2 percent during the current fiscal year and had a dividend yield of 1.9 percent as of the end of the fiscal year. The CMEF portfolio

had a return comparable to the broad U.S. market with a return of 24.6 percent for the current fiscal year but with a significantly higher dividend yield of 3.3 percent for the same time period.

- Earnings receivable and distributions payable balances can fluctuate significantly from month to month depending on income collected during the current period. The WSIB distributes income on a cash basis and fluctuations in balances from period to period are normal depending on the timing of income payments.

As shown in Table 2, net investment income increased by $56.4 million, due almost entirely to the increase in realized and unrealized gains and losses. This gain is the result of the performance of the equity markets as shown in the preceding pages. Overall returns by asset class and individual Permanent Fund are also presented in the previous pages.

Table 2 - Summarized Changes in Net Investment Position

	2014	2013	Dollar Change	Percent Change
Net Investment Income				
Interest, Dividends and Other Investment Income	$ 39,666,422	$ 34,473,654	$ 5,192,768	15.1%
Realized and Unrealized Gains (Losses)	48,247,859	(2,949,551)	51,197,410	(1735.8%)
Less:				
Investment Fees	(165,042)	(136,661)	28,381	20.8%
Net Investment Income	**87,749,239**	**31,387,442**	**56,361,797**	179.6%
Contributions	14,543,995	15,415,467	(871,472)	(5.7%)
Distributions to Beneficiaries	(39,498,634)	(34,350,774)	5,147,860	15.0%
Net Investment Position - Beginning	**916,243,307**	**903,791,172**	**12,452,135**	1.4%
Net Investment Position - Ending	**$ 979,037,907**	**$ 916,243,307**	**$ 62,794,600**	6.9%

Contributions received from DNR decreased by $0.9 million due to lower volume of timber sales and other natural resources during the current fiscal year.

Distributed investment income increased approximately $5.1 million during the current fiscal year. The majority of the increases were realized gains within the Commingled Monthly Bond Fund (CMBF) and CMEF. Fixed income securities were sold during the current fiscal year which resulted in distributable gains of $3.0 million. Equity securities sold had distributable gains of $1.1 million. The remaining increase was the result of the timing of coupon and dividend payments received. The distribution policy for the CMEF and CMBF is cash basis and, accordingly, fluctuations from year to year would be normal based on the timing of income payments.

The fair value of the Permanent Funds' assets is directly impacted by the returns of the various capital markets within which the WSIB invests. The returns are expected to have a significant effect on financial position and results of operations in the future. However, one of the benefits of diversification gained by investing across various investment types, as well as broadly within an asset class, is the reduction in aggregate volatility of the total investment portfolio.

Permanent Funds Statement of Net Investment Position - June 30, 2014

See notes to financial statements

	American Indian Scholarship Endowment	Agricultural School	Normal School	Common School	Scientific School	State University	Total	Percent of Total
ASSETS								
Investments:								
Cash and Cash Equivalents	$ 19,254	$ 245,932	$ 113,991	$ 98,006	$ 1,521,988	$ 282,991	$ 2,282,162	0.2%
Commingled Monthly Bond Fund	341,855	146,670,616	182,387,729	141,718,109	165,636,924	24,080,439	660,835,672	67.5%
Commingled Monthly Equity Fund	-	70,011,142	85,751,243	69,019,588	79,516,661	11,621,383	315,920,017	32.3%
Total Investments	361,109	216,927,690	268,252,963	210,835,703	246,675,573	35,984,813	979,037,851	100.0%
Investment Earnings Receivable	1,084	727,938	900,249	708,530	823,984	120,031	3,281,816	
Total Assets	362,193	217,655,628	269,153,212	211,544,233	247,499,557	36,104,844	982,319,667	
LIABILITIES								
Distributions and Other Payables	1,084	727,933	900,246	708,528	823,945	120,024	3,281,760	
NET INVESTMENT POSITION	$ 361,109	$ 216,927,695	$268,252,966	$ 210,835,705	$246,675,612	$ 35,984,820	$ 979,037,907	

Permanent Funds Statement of Changes in Net Investment Position - Year Ended June 30, 2014

See notes to financial statements

	American Indian Scholarship Endowment	Agricultural School	Normal School	Common School	Scientific School	State University	Total
Net Investment Income							
Investment Income:							
Interest, Dividends and Other Investment Income	$ 14,872	$ 8,763,583	$ 10,944,397	$ 8,581,630	$ 9,925,401	$ 1,436,539	$ 39,666,422
Net Realized Capital Gains	-	314,700	500,123	-	166,754	54,785	1,036,362
Unrealized Gains and Losses	(1,267)	10,301,584	12,377,607	10,902,096	11,934,779	1,696,698	47,211,497
Less:							
Investment Expenses	(31)	(994)	(273)	(138)	(1,186)	(295)	(2,917)
WSIB Operating Expenses	(14)	(35,823)	(44,705)	(35,146)	(40,561)	(5,876)	(162,125)
Net Investment Income	13,560	19,343,050	23,777,149	19,448,442	21,985,187	3,181,851	87,749,239
Other Changes in Net Investment Position							
Contributions	-	4,260,000	1,670,000	784,000	6,613,995	1,216,000	14,543,995
Withdrawals and Distributions	(12,137)	(8,726,769)	(10,899,419)	(8,546,333)	(9,883,617)	(1,430,359)	(39,498,634)
Increase in Net Investment Position	1,423	14,876,281	14,547,730	11,686,109	18,715,565	2,967,492	62,794,600
Net Investment Position - June 30, 2013	359,686	202,051,414	253,705,236	199,149,596	227,960,047	33,017,328	916,243,307
Net Investment Position - June 30, 2014	$ 361,109	$ 216,927,695	$268,252,966	$ 210,835,705	$246,675,612	$ 35,984,820	$ 979,037,907

Notes to Financial Statements

Note 1. Description of Funds and Significant Accounting Policies

Description of Funds

The Permanent Funds of Washington State include funds established by the State Enabling Act and funds created by private donation. Funds established by the State Enabling Act consist of the Agricultural College Fund, the Normal School Fund, the Common School Fund, the Scientific Fund, and the State University Fund. Originally, land was granted to the state by the federal government at statehood to establish these permanent funds. The Permanent Funds consist of proceeds from sales of these lands and related natural resources. The proceeds from these sales are deposited by the DNR in each respective Permanent Fund account for investment by the WSIB. The American Indian Scholarship Endowment Fund was created in 1990 to help American Indian students obtain a higher education and currently contains only private donations. The matching funds appropriated by the state for this fund were transferred to the Office of the State Treasurer pursuant to legislative changes during the fiscal year ended June 30, 2012.

The fixed income investments held by the Permanent Funds are commingled into one fund called the Commingled Monthly Bond Fund (CMBF). The equity investments held by the Permanent Funds are commingled into one fund called the CMEF. The Permanent Funds hold shares of the CMBF and the CMEF. The CMBF and CMEF comply with the Permissible Investments and Portfolio Constraints of the WSIB Permanent Funds' investment policy. The asset classes held in the CMBF and CMEF are presented in Schedule 1 and Schedule 3, respectively.

The financial statements present only the activity of the Permanent Funds as managed by the WSIB. The WSIB has exclusive control of the investments held by the Permanent Funds. The financial statements do not present the financial position and results of operations of the WSIB.

Basis of Accounting

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States for governments prescribed by the Governmental Accounting Standards Board (GASB) on the accrual basis of accounting.

Valuation of Investments

Investments are reported at fair value. Fair values are based on published market prices, quotations from national security exchanges, and security pricing services. Investments are adjusted to fair value monthly. Unrealized gains and losses are included as investment income in the Statement of Changes in Net Investment Position.

Revenue Recognition

Interest and dividend income are recognized when earned. Capital gains and losses are recognized on a trade-date basis. Purchases and sales of investments are also recorded on a trade date basis.

Contributions and Withdrawal Policy

Cash basis investment income is distributed to the beneficiary funds on a monthly basis, pursuant to the policies of the underlying funds. Income distributed includes interest, dividends, capital gains, and capital losses received during the distribution period. Unrealized gains and losses are not distributed pursuant to state accounting policies and procedures. This is necessary to meet legal requirements regarding the preservation of capital.

Contributions are recorded when received.

Securities Lending

The Permanent Funds invest in the CMBF and the CMEF which holds the underlying securities and participates in lending activities. Each Permanent Fund owns shares in the CMBF and CMEF and does not directly participate in securities lending activities. Accordingly, the lending activity is not presented within each individual fund in the accompanying financial statements.

The collateral received under securities lending agreements, where the funds have the ability to spend, pledge, or sell the collateral without borrower default, is included in the CMBF and CMEF net investment position. Liabilities resulting from these transactions are also included in each fund's net investment position. Additionally, costs associated with securities lending transactions, including broker rebates and investment management fees paid, are part of the CMBF and CMEF and are not reported directly by the Permanent Funds. Securities lending income received by the CMBF and CMEF during Fiscal Year 2014 was $261,912. Securities lending expenses during the fiscal year totaled $86,245.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

Note 2. Fees and Expenses

Investment fees and expenses are accounted for as a reduction of investment income or are netted directly from the asset value of Permanent Funds, CMEF, and CMBF investments. These fees include investment management fees and commissions, investment consultant fees, legal fees, and other investment management related expenses. The WSIB operating expenses are charged to the funds based upon actual costs incurred to manage the investments. WSIB operating expenses are allocated to the funds under management based on relative market values, in accordance with state statutes.

Note 3. Deposit and Investment Risk Disclosures

Custodial Credit Risk

Custodial credit risk is the risk that in the event a depository institution or counterparty fails, the Permanent Funds will not be able to recover the value of its deposits, investments, or collateral securities. As of June 30, 2014, investment securities (excluding cash and cash equivalents and repurchase agreements held as securities lending collateral) are registered and held in the name of the WSIB for the benefit of the Permanent Funds, and are not exposed to custodial credit risk. There are no general policies relating to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. The risk is managed within the portfolios using effective duration which is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. The Permanent Funds' investment policies require the duration to be targeted within plus or minus 20 percent of the duration of the portfolio's benchmark which is Barclays Capital Aggregate. Increases in prevailing interest rates generally translate into decreases in fair values of those investments.

Schedule 1 and 2 provides information about the interest rate risks associated with the CMBF investments as of June 30, 2014. The schedules display various asset classes held by maturity in years, effective durations, and credit ratings. Fixed income securities are reported using the average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity for these securities, taking into account possible prepayments of principal.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Permanent Funds' investment policies limit the fixed income securities to investment grade or higher at the time of purchase. Investment grade securities are those fixed income securities with a Moody's rating of Aaa to Baa or a Standard and Poor's rating of AAA to BBB.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Permanent Funds' policy states that corporate fixed income issues cost shall not exceed 3 percent of the fund's fair value at the time of purchase, nor shall its fair value exceed 6 percent of the fund's fair value at any time. There was no concentration of credit risk in the CMBF that exceeded these limits as of June 30, 2014.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Permanent Funds have no formal policy to limit foreign currency risk. The only foreign securities held by the CMBF and CMEF are traded and denominated in U.S. dollars. Foreign securities held and denominated in U.S. dollars were approximately 15 percent of the total investment holdings of both funds. The Permanent Funds had no investments with foreign currency risk exposure at June 30, 2014.

Note 4. Securities Lending

Washington State law and WSIB policy permit the Permanent Funds to participate in securities lending programs to augment investment income. The WSIB has entered into an agreement with State Street Corporation to act as agent for the WSIB in securities lending transactions. As State Street Corporation is the custodian bank for the WSIB, it is counterparty to securities lending transactions.

Securities lending activity is part of the commingled funds and, accordingly, is not reported directly by the Permanent Funds in the accompanying financial statements. The Permanent Funds own units in each fund, similar to a mutual fund. The commingled funds engage in all lending activity and report the net lending income activity within the fund as increases in the share price of each fund until distributed to the beneficiary funds. On June 30, 2014, the fair value of the securities on loan in the CMEF and CMBF was approximately $57.1 million. The securities on loan are reported in Schedule 3 in their respective categories.

At June 30, 2014, cash collateral received totaling $36.4 million is reported as a securities lending obligation, and the fair value of the re-invested cash collateral totaling $36.4 million is reported as security lending collateral in Schedule 1 and 3. Securities received as collateral where the Permanent Funds do not have the ability to pledge or sell the collateral unless the borrower defaults are not reported as assets and liabilities in Schedule 1 and 3.

Debt and equity securities were loaned and collateralized by the Permanent Funds' agent with cash and U.S. Government or U.S. Agency Securities, including U.S. Agency Mortgage Backed Securities (exclusive of letters of credit). When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest of the loaned securities.   The following table summarizes the securities held from reinvestment of cash collateral and securities received as collateral at June 30, 2014.

In Millions:	Cash Collateral	Non Cash Collateral	Total
Mortgage Backed Securities	$ -	$ 17.0	$ 17.0
Repurchase Agreements	18.5	-	18.5
Yankee CD	6.7	-	6.7
Commercial Paper	4.3	-	4.3
Cash Equivalents and other	6.9	5.2	12.1
Total Collateral Held	$ 36.4	$ 22.2	$ 58.6

During Fiscal Year 2014, securities lending transactions could be terminated on demand by either the Permanent Funds or the borrower. As of June 30, 2014, the collateral held had an average duration of 22.5 days and an average weighted final maturity of 82.2 days. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. No more than 20 percent of the total on loan value can be held by a specific borrower.   Collateral investment guidelines specifically prohibit European domiciled holdings. There are no restrictions on the amount of securities that can be lent.

Securities were lent with the agreement that they would be returned in the future for exchange of the collateral. State Street Corporation indemnified the WSIB by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return the loaned securities, or pay distributions thereon. State Street Corporation's responsibilities included performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable federal regulations concerning securities lending.

During Fiscal Year 2014, there were no significant violations of legal or contractual provisions, no failures by any borrowers to return loaned securities or to pay distributions thereon. The Permanent Funds incurred no losses during Fiscal Year 2014 resulting from a default by either the borrowers or the securities lending agents.

Note 5. Derivatives

The Permanent Funds are authorized to utilize various derivative financial instruments to purchase and hold mortgage backed securities. Derivative transactions involve, to varying degrees, market and credit risk. Permanent Funds mitigate market risks arising from derivative transactions by requiring collateral in cash and investments to be maintained equal to the securities positions outstanding, and thereby prohibiting the use of leverage or speculation. Credit risks arising from derivative transactions are mitigated by selecting and monitoring creditworthy counterparties and collateral issuers.

At June 30, 2014, the only derivative securities held directly by the Permanent Funds' CMBF were collateralized mortgage obligations of $75.5 million.

Note 6. Summary of Investment Policy

Per RCW 43.33A.030, trusteeship of the Permanent Funds is vested in the voting members of the WSIB. The Legislature has established a standard of care for investment of this fund in RCW 43.33A.140. Additionally, the WSIB 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 following investment objectives.

Strategic Objectives

The strategic objective for the Permanent Fund portfolios are to be managed to achieve the highest return possible, at a prudent level of risk, and consistent with the desire to emphasize high current yield to maturity opportunities and to add value through active management.

The strategic objectives include:

- Safety of principal;
- Current income;
- Long-term stability of purchasing power; and
- Preservation of the public's trust.

Taken together, these objectives imply portfolios for which growth keeps pace with inflation over time and are able to provide a stable level of income sufficient to meet each fund's constituent needs while maintaining the corpus (or principal balances) of the funds.

Performance Objectives

In most cases, the Permanent Funds' investments are to emphasize stability and maximize income to support the operations of each permanent trust.

Within the required accounting guidelines, the Permanent Funds' portfolios are to be managed so that their individual performance meets or exceeds the return of each fund's specific benchmark with a volatility of returns that, over time, is similar to or less than the benchmark's for a similar level of returns.

Risk Tolerance

Risk will be managed in a prudent manner. Since the stakeholder only receives the current income adjusted for realized capital gains and losses, the funds have a below average ability to tolerate volatility in current income.

Portfolio Constraints

- All assets under the management of the WSIB are to be invested to maximize return at a prudent level of risk in accordance with RCW 43.33A.110 and RCW 43.33A.140, which state, in part, that the WSIB is to "invest and manage the assets entrusted to it with reasonable care, skill, prudence and diligence under circumstances then prevailing which a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an activity of like character and purpose."
- No corporate fixed income issues 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 per RCW 43.33A.140.

Permissible Investments

The six permanent funds managed by the WSIB have differing legal investment restrictions. The following list is comprehensive and any restrictions to an individual fund will be listed separately.

- Any WSIB managed fund that meets a fund's investment objectives and its permissible investments constraints.
- U.S. and non-U.S. public equity.
- Investment Grade Fixed Income. Investment grade is defined using the method employed by the Barclays Capital Global Family of Fixed Income Indices. 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.

Permissible Fixed Income Market Segments:

- Government Securities
- Credit Bonds
- Mortgage Backed Securities
- Asset Backed Securities
- Commercial Backed Mortgage Securities
- Convertible Securities
- Eurodollar Bonds
- Non-Dollar Bonds

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

Fixed Income Sector Allocations

Portfolio 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.

Government Securities	10% – 50%
Credit Bonds	10% – 50%
Asset Backed Securities	0% – 10%
Commercial Mortgage Backed Securities	0% – 10%
Mortgage Backed Securities	5% – 40%
Total	100%

Duration Target

The fixed income portfolio's duration is to be targeted within plus or minus 20 percent of the duration of the portfolio's benchmark.

Asset Allocation and Benchmarking

The Agricultural College Fund, Normal School Fund, Common School Fund, Scientific Fund, and the State University Fund have the following asset allocation policies and benchmarks:

Asset Class	Target	Range
Unrestricted Fixed Income	70%	66%-100%
Equities (Russell 3000)	30%	0%-34%

The benchmark for the above funds is a combination of the Barclays Capital Aggregate and the Russell 3000 in the weighted percentage allocations that represent the fund's target allocation.

The American Indian Scholarship Endowment Fund has an asset allocation of 100 percent unrestricted fixed income securities. The benchmark for the fund is the Barclays Capital Aggregate.

Schedule 1: Commingled Monthly Bond Fund (CMBF) Schedule of Net Investment Position

Investment Type	Total Fair Value	Maturity: Less than 1 year	Maturity: 1-5 years	Maturity: 6-10 years	Maturity: More than 10 years	Effective Duration	Credit Rating
Mortgage and Other Asset Backed Securities	$ 93,652,168	$ 8,166,384	$ 83,303,858	$ -	$ 2,181,926	2.08	Schedule 2
Corporate Bonds	291,464,641	28,726,369	178,728,257	25,993,840	58,016,175	5.54	Schedule 2
U.S. Government and Agency Securities	240,875,068	-	132,833,699	91,971,149	16,070,220	5.64	Aaa
Foreign Government and Agency Securities	26,380,369	5,018,700	5,526,672	15,834,997	-	4.49	Schedule 2
Total Debt Securities	652,372,246	$ 41,911,453	$ 400,392,486	$ 133,799,986	$ 76,268,321	5.04	
Cash and Cash Equivalents	5,539,229						
Collateral Held Under Securities Lending Agreements	9,987,986						
Investment Earnings Receivable	5,014,257						
Total Commingled Bond Fund Assets	672,913,718						
Distributions and other payables	(2,090,060)						
Obligations Under Securities Lending Agreements	(9,987,986)						
CMBF Net Investment Position - June 30, 2014	$ 660,835,672						

Schedule 2: Commingled Monthly Bond Fund (CMBF) Credit Rating (Moody's)

Credit Rating	Mortgage and Other Asset Backed Securities	Corporate Bonds	Foreign Government and Agency Securities
Aaa	$ 93,551,651	$ 26,065,419	$ 5,018,700
Aa1	-	-	-
Aa2	100,517	-	5,038,096
Aa3	-	16,600,000	5,364,401
A1	-	32,730,189	5,526,672
A2	-	75,948,001	-
A3	-	49,881,435	-
Baa1	-	48,428,315	-
Baa2	-	33,001,945	5,432,500
Baa3	-	8,809,337	-
	$ 93,652,168	$ 291,464,641	$ 26,380,369

Schedule 3: Commingled Monthly Equity Fund (CMEF) Schedule of Net Investment Position

Classification	
Cash and Cash Equivalents	$ 2,129,037
Common Stock	297,880,429
Preferred Stock	16,488,209
Receivables	11,093,100
Collateral Held Under Securities Lending Agreements	26,427,669
Payables	(11,670,758)
Obligations Under Securities Lending Agreements	(26,427,669)
Net Investment Position June 30, 2014	$ 315,920,017

GUARANTEED EDUCATION TUITION FUND

petersonsullivan LLP

Certified Public Accountants
& Advisors

Independent Auditor's Report

To the Members of the Washington State Investment Board

Olympia, Washington

We have audited the accompanying financial statements of the Guaranteed Education Tuition Fund of the State of Washington as managed by the Washington State Investment Board ("the Guaranteed Education Tuition Fund"), which comprise the statement of net investment position as of June 30, 2014, and the related statement of changes in net investment position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net investment position of the Guaranteed Education Tuition Fund as of June 30, 2014, and the changes in net investment position for the year then ended in conformity with accounting principles generally accepted in the United States.

petersonsullivan LLP
Certified Public Accountants
& Advisors

Management Discussion and Analysis

Accounting principles generally accepted in the United States require that the management's discussion and analysis preceding the financial statements be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

/S/ PETERSON SULLIVAN LLP

September 25, 2014

Management Discussion and Analysis

Management's Discussion and Analysis for the Guaranteed Education Tuition (GET) Fund, managed by the Washington State Investment Board (WSIB), is presented as an introduction to the financial statements. It is meant to assist the reader in understanding the financial statements by providing an overall review of the financial activities during the year as well as to provide a comparison to the prior year's activities and results. The WSIB manages funds for other Washington State departments. This section of the report represents only the GET Fund portion.

The financial statements and footnotes follow this section of the report. The Statement of Net Investment Position provides information on the types of investments and related liabilities of the GET Fund. This information is summarized in Table 1. Table 1 also compares the asset, liability, and net investment balances at June 30, 2014, with those at June 30, 2013. The Statement of Changes in Net Investment Position provides information on investment performance and other increases and decreases in the net investment position of the GET Fund for the year ended June 30, 2014. This information is summarized in Table 2. Table 2 also compares the financial activities of the GET Fund for the year ended June 30, 2014, with those of the year ended June 30, 2013. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements of the GET Fund.

Net investment returns for the significant asset classes and in total for the current fiscal year compared to the prior fiscal year are as follows:

Asset Class	FY 2014	FY 2013
Cash and Cash Equivalents	0.1%	0.1%
Treasury Inflation Protected Securities	4.5%	-5.3%
Commingled Intermediate Credit	6.1%	1.2%
Equity Securities	23.7%	17.7%
Total Investment Return	16.4%	9.6%

As shown in Table 1, the net investment position of the GET Fund increased by $386.1 million during the fiscal year ended June 30, 2014. Contributions to the GET Fund during the year increased net investment position by $17.1 million. Realized and unrealized gains increased net investment position by $321.6 million. The remaining increase was a result of net investment income reinvested within the funds.

Table 1 - Summarized Net Investment Position				
	2014	2013	Dollar Change	Percent
Cash and Cash Equivalents	$ 47,285,675	$ 61,842,617	$ (14,556,942)	-23.5%
Debt Securities	936,649,492	837,423,303	99,226,189	11.8%
Equity Securities	1,666,902,996	1,375,308,894	291,594,102	21.2%
Total Investments	**2,650,838,163**	**2,274,574,814**	**376,263,349**	**16.5%**
Collateral Held Under Securities Lending Agreements	67,051,077	60,403,466	6,647,611	11.0%
Pending Trades and Other Investment Receivables	6,908,267	6,171,576	736,691	11.9%
Total Assets	**2,724,797,507**	**2,341,149,856**	**383,647,651**	**16.4%**
Investment Liabilities	68,148,657	70,610,897	(2,462,240)	-3.5%
Net Investment Position	**$ 2,656,648,850**	**$ 2,270,538,959**	**$ 386,109,891**	**17.0%**

The following summarizes the changes within each grouping listed within Table 1:

- Cash and cash equivalents decreased by $(14.6) million. Cash balances represents less than 2 percent of total invested balances. Initially, net investment income received from all asset classes and net contributions from GET participants are reinvested in money market funds. Long term investments are made as the cash becomes available and market opportunities exist. Cash balances fluctuate within policy ranges and is held to meet cash flow needs of the program.
- Debt securities increased by $99.2 million. Net realized and unrealized gains increased this asset class by $38.0 million. The GET Fund rebalanced during the year ended June 30, 2014, and $64.5 million was invested in debt securities from equity security sales and cash. Debt securities sold and not settled as of the prior fiscal year end decreased the current fiscal year balances by $(9.7) million. The remaining increase was due to reinvestment of net investment income within the fixed income portfolio. Approximately half the debt securities are comprised of Treasury Inflation Protection Securities (TIPS), which returned 4.5 percent during the current fiscal year. Other debt securities, comprised primarily of investment grade corporate debt, returned 6.1 percent during the same time period. U.S. TIPS had strong performance during the current fiscal year. TIPS benefitted from modestly rising inflation as measured by the Consumer Price Index. Investment grade corporate fixed income benefitted from spreads tightening which led to outperformance versus Treasuries. Default activity for investment grade issuers and spreads relative to Treasuries are low relative to historical standards.
- Equity securities increased by $291.6 million. During the current fiscal year the portfolio was rebalanced and $(34.5) million of equity securities were sold and the proceeds were invested in the fixed income portfolio. Net realized and unrealized gains increased equity balances by $283.5 million. The remaining increase was the result of net investment income reinvested in equity securities. For the second straight year equity markets in developed countries overcame much of the uncertainty that has plagued the macroeconomic environment recently and delivered positive returns. The GET Fund equity portfolio returned 23.7 percent during the current fiscal year. The U.S. equity market rose 25.2 percent, as measured by the MSCI U.S. IMI index, during the current fiscal year. Emerging markets continued to lag developed markets, mainly driven by concerns of an economic slowdown in China. Emerging markets equity returns were modest comparatively but still posted a 14.3 percent gain for the fiscal year.
- Net securities lending receivables and payables increased by $6.6 million. During the current fiscal year, collateral guidelines were expanded to include U.S. agency mortgage backed securities. This change resulted in more securities lent over the previous fiscal year. In addition, the lending environment in the current fiscal year was favorable to lending equity securities which increased the equity securities on loan and, accordingly, collateral balances.

As shown in Table 2, net investment income increased by $177.5 million during the fiscal year ended June 30, 2014. The majority of this net increase was the result of increases in realized and unrealized gains of $174.1 million. Interest, dividend, and other investment income increased by $3.7 million mainly due to increases in dividend income received during the current fiscal year. Equity balances increased by 21.2 percent over the prior fiscal year which resulted from higher dividend payments received. The current fiscal year return for the GET Fund was 16.4 percent compared to the prior fiscal year return of 9.6 percent.

Table 2 - Summarized Changes in Net Investment Position

	2014	2013	Dollar Change	Percent
Net Investment Income				
Interest, Dividends and Other Investment Income	$ 48,793,443	$ 45,140,987	$ 3,652,456	8.1%
Net Capital Gains	14,194,510	7,122,965	7,071,545	99.3%
Unrealized Gains	307,414,445	140,411,293	167,003,152	118.9%
Less: Fees and Expenses	(1,410,548)	(1,194,843)	215,705	18.1%
Net Investment Income	**368,991,850**	**191,480,402**	**177,511,448**	**92.7%**
Net Amount Contributed	17,118,041	52,361,117	(35,243,076)	(67.3%)
Net Investment Position - Beginning	**2,270,538,959**	**2,026,697,440**	**243,841,519**	**12.0%**
Net Investment Position - Ending	**$ 2,656,648,850**	**$ 2,270,538,959**	**$ 386,109,891**	**17.0%**

Net contributions from the GET Fund decreased by $(35.2) million. GET participants purchased approximately 29 percent fewer tuition units during the current fiscal year. In addition, lump sum purchases of tuition units, where participants purchase all education units at one time, were lower than the prior fiscal year. These events resulted in less funding available for investment.

The WSIB staff rebalances the GET Funds' investments between asset classes as markets fluctuate pursuant to WSIB policy. The fair value of the GET Fund assets is directly impacted by the returns of the various capital markets within which the WSIB invests. The returns are expected to have a significant effect on financial position and results of operations in the future. However, one of the benefits of diversification gained by investing across various investment types, as well as broadly within an asset class, is the reduction in aggregate volatility of the total investment portfolio. The WSIB, after discussions with the GET Committee, makes the asset allocation decisions for the GET Fund investments.

GET Fund Statement of Net Investment Position - June 30, 2014
See notes to financial statements

			Percent
ASSETS			
Investments:			
Cash and Cash Equivalents	$	47,285,675	1.7%
Debt Securities			
U.S. Treasury Inflation Protected Securities		460,227,280	17.4%
Commingled Intermediate Credit		476,422,212	18.0%
Total Debt Securities		936,649,492	35.4%
Equity Securities			
Common and Preferred Stock		1,610,086,251	60.7%
Real Estate Investment Trusts		41,869,203	1.6%
Depository Receipts and Other		14,947,542	0.6%
Total Equity Securities		1,666,902,996	62.9%
Total Investments		2,650,838,163	100.0%
Collateral Held Under Securities Lending Agreements		67,051,077	
Pending Trades and Other Investment Receivables		6,908,267	
Total Assets		2,724,797,507	
LIABILITIES			
Pending Trades and Other Payables		1,097,580	
Obligations Under Securities Lending Agreements		67,051,077	
Total Liabilities		68,148,657	
NET INVESTMENT POSITION	$	2,656,648,850	

GET Fund Statement of Changes in Net Investment Position - Year Ended June 30, 2014
See notes to financial statements

Net Investment Income		
Investment Income		
Interest, Dividends and Other Investment Income	$	47,942,101
Securities Lending Income		851,342
Net Realized Capital Gains		14,194,510
Unrealized Gains		307,414,445
Less:		
Securities Lending Rebates and Fees		(320,000)
Investment Expenses		(675,516)
WSIB Operating Expenses		(415,032)
Net Investment Income		368,991,850
Net Amount Contributed		17,118,041
Increase in Net Investment Position		386,109,891
Net Investment Position - June 30, 2013		2,270,538,959
Net Investment Position - June 30, 2014	$	2,656,648,850

Notes to Financial Statements

Note 1. Description of Fund and Significant Accounting Policies

Description of Fund

The GET Fund consists of contributions from participants planning on attending advanced education programs in Washington State at a future date. This fund is invested by the WSIB until participants begin to withdraw funds as needed to pay for educational expenses. The financial statements present only the activity of the GET Fund as managed by the WSIB. The WSIB has exclusive control of the investments held for the GET Fund. The financial statements do not present the financial position and results of operations of the WSIB or the GET Fund.

Basis of Accounting

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States for governments prescribed by the Governmental Accounting Standards Board (GASB) on the accrual basis of accounting.

Valuation of Investments

Investments are reported at fair value. Fair values are based on published market prices, quotations from national security exchanges, and security pricing services. Investments are adjusted to fair values monthly. Unrealized gains and losses are included as investment income in the Statement of Changes in Net Investment Position.

Revenue Recognition

Interest and dividend income are recognized when earned. Capital gains and losses are recognized on a trade date basis. Purchases and sales of investments are also recorded on a trade date basis.

Securities Lending

The collateral received under securities lending agreements, where the GET Fund has the ability to spend, pledge, or sell the collateral without borrower default, is included in the Statement of Net Investment Position. Liabilities resulting from these transactions are also recorded. Additionally, costs associated with securities lending transactions, including broker commissions and lending fees paid to the custodian bank, are reported as investment expenses in the accompanying financial statements. The Statement of Net Investment Position does not include detailed holdings of securities lending collateral by investment classification.

Contributions

Contributions are recorded when received.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

Note 2. Fees and Expenses

Investment fees and expenses are accounted for as a reduction of investment income or are netted directly from the asset value of the GET Fund's investments. These fees include investment management fees and commissions, investment consultant fees, legal fees, and other investment management related expenses. The WSIB operating expenses are charged to the funds based upon actual costs incurred to manage the investments. WSIB operating expenses are allocated to the funds under management based on relative market values, in accordance with state statutes.

Note 3. Deposit and Investment Risk Disclosures

Custodial Credit Risk

Custodial credit risk is the risk that in the event a depository institution or counterparty fails, the GET Fund will not be able to recover the value of its deposits, investments, or collateral securities. As of June 30, 2014, investment securities (excluding cash and cash equivalents and repurchase agreements held as securities lending collateral) are registered and held in the name of the WSIB for the benefit of the GET Fund and are not exposed to custodial credit risk. There are no general policies relating to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. The risk is managed within the portfolios using effective duration which is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. The GET Fund investment policies require the duration range for the commingled intermediate credit fund not exceed plus or minus 15 percent of the Barclays Capital Intermediate Credit Index. Increases in prevailing interest rates generally translate into decreases in fair values of fixed income investments.

Schedule 1 and 2 provide information about the interest rate risks associated with the GET Fund investments as of June 30, 2014. The schedules display various asset classes held by maturity in years, effective durations, and credit ratings. Fixed income securities are reported using the average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity of these securities, taking into account possible prepayments of principal.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The GET Fund's investment policies limit the fixed income securities to investment grade or higher at the time of purchase. Investment grade securities are those fixed income securities with a Moody's rating of Aaa to Baa or a Standard and Poor's rating of AAA to BBB. The rated debt investments as of June 30, 2014, were rated by Moody's and/or an equivalent national rating organization. Investment types with multiple ratings are presented in Schedule 2 using the Moody's rating scale.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The GET Fund policy states no corporate fixed income issues cost shall exceed 3 percent of the fair value at the time of purchase, nor shall its fair value exceed 6 percent of the fair value at any time. There was no concentration of credit risk that exceeded these limits as of June 30, 2014.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The GET Fund does not have a formal policy to limit foreign currency risk. The GET Funds manage their exposure to fair value loss by requiring their investment managers to maintain diversified portfolios by sector and by issuer to limit foreign currency and security risk. The GET Funds exposure to foreign currency risk is presented in Schedule 3 which provides information on deposits and investments held in various foreign currencies.

Note 4. Securities Lending

Washington State law and WSIB policy permit the GET Fund to participate in securities lending programs to augment investment income. The WSIB has entered into an agreement with State Street Corporation to act as agent for the WSIB in securities lending transactions. As State Street Corporation is the custodian bank for the WSIB, it is counterparty to securities lending transactions.

The fair value of the securities on loan at June 30, 2014, was approximately $99.3 million. The securities on loan remain in the Statement of Net Investment Position in their respective categories. At June 30, 2014, cash collateral received totaling $67.1 million is reported as a securities lending obligation, and the fair value of the re-invested cash collateral totaling $67.1 million is reported as security lending collateral in the Statement of Net Investment Position. Securities received as collateral where the GET Fund does not have the ability to pledge or sell the collateral unless the borrower defaults are not reported as assets and liabilities in the Statement of Net Investment Position. Total cash and securities received as collateral at June 30, 2014, was $102.0 million.

Debt and equity securities were loaned and collateralized by the GET Fund's agent with cash and U.S. Government or U.S. Agency Securities including, U.S. Agency Mortgage Backed Securities (exclusive of letters of credit). When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest of the loaned securities. The following table summarizes the securities held from reinvestment of cash collateral and securities held as collateral at June 30, 2014.

In Millions:	Cash Collateral	Non Cash Collateral	Total
Mortgage Backed Securities	$ -	$ 33.2	$ 33.2
Repurchase Agreements	34.1	-	34.1
Yankee CD	12.4	-	12.4
Commercial Paper	7.9	-	7.9
Cash Equivalents and Other	12.7	1.7	14.4
Total Collateral Held	$ 67.1	$ 34.9	$ 102.0

During Fiscal Year 2014, securities lending transactions could be terminated on demand by either the GET Fund or the borrower. As of June 30, 2014, the cash collateral held had an average duration of 22.5 days and an average weighted final maturity of 82.2 days. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. No more than 20 percent of the total on loan value can be held by a specific borrower. Collateral investment guidelines specifically prohibit European domiciled holdings. There are no restrictions on the amount of securities that can be lent.

Securities were lent with the agreement that they would be returned in the future for exchange of the collateral. State Street Corporation indemnified the WSIB by agreeing to purchase replacement securities, or return the cash collateral in the event a borrower failed to return the loaned securities or pay distributions thereon. State Street Corporation's responsibilities included performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable federal regulations concerning securities lending.

During Fiscal Year 2014, there were no significant violations of legal or contractual provisions, no failures by any borrowers to return loaned securities or to pay distributions thereon. Further, the GET Fund incurred no losses during Fiscal Year 2014, resulting from a default by either the borrowers or the securities lending agents.

Note 5. Derivatives

The GET Fund is authorized to utilize various derivative financial instruments, including financial futures and forward contracts. Derivative transactions involve, to varying degrees, market and credit risk. In connection with the global equity strategy within the portfolio, the GET Fund held investments in financial futures at various times throughout the fiscal year that are recorded at fair value with realized and unrealized gains and losses recognized in investment income in the Statement of Changes in Net Investment Position. As of June 30, 2014, the derivative instruments held by the GET Fund are considered investment derivatives and not hedging derivatives for accounting purposes.

Derivatives are generally used to achieve the desired market exposure of a security, index, or currency. Derivative contracts are instruments that derive their value from underlying assets, indices, reference interest rates, or a combination of these factors. A derivative instrument could be a contract negotiated on behalf of the GET Fund and a specific counterparty. This would typically be referred to as an over the counter (OTC) contract such as forward contracts. Alternatively, a derivative instrument, such as futures, could be listed and traded on an exchange and referred to as "exchange traded."

Futures contracts are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price. Gains and losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. The exchange assumes counterparty risk and requires margin deposits and payments to minimize such risk. Futures are generally used to achieve the desired market exposure of a security or index, or rebalance the total portfolio.

Forward currency contracts are agreements to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. These forward commitments are not standardized and carry credit risk due to the possible nonperformance by one of the counterparties. The maximum potential loss is the aggregate face value in U.S. dollars at the time the contract was opened; however, the likelihood of such loss is remote. During the fiscal year ended June 30, 2014, the GET Fund had no outstanding forward currency contracts.

Inherent in the use of OTC derivatives, the GET Fund is exposed to counterparty credit risk on all open OTC positions. Counterparty credit risk is the risk that a derivative counterparty may fail to meet its payment obligation under the derivative contract. As of June 30, 2014, the GET Fund had no open OTC derivatives and, accordingly, no counterparty credit risk. Derivatives which are exchange traded are not subject to counterparty credit risk.

	Classification	Changes in Fair Value - Included in Investment Income Amount	Fair Value at June 30, 2014 - Investment Derivative Amount	Notional
FUTURES CONTRACTS:				
Equity Index Futures	Investment	$ 2,334,356	$ 136,023	5,650

Note 6. Summary of Investment Policy

Per RCW 43.33A.030, trusteeship of the GET Fund is vested in the voting members of the WSIB. The Legislature has established a standard of care for investment of these funds in RCW 43.33A.140. Additionally, the WSIB 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 following 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 determinate is identifying the prudent level of risk for the program considering the program's need to meet or exceed the growth rate of tuition costs. Based on this requirement the order of the objectives shall be:

- Maintain the solvency of the fund and the financial stability of the program as measured by the external actuary;
- Ensure sufficient assets are available to fund the expected college tuition payments;
- Subject to the above requirements, achieve a maximum return that will meet or exceed the rate of growth in college tuition cost over a 10-year period, at a prudent level risk; and
- Invest in a manner that will not compromise public confidence in the program.

Performance Objectives

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

The fund has both a long-term absolute goal and several relative performance objectives:

- Achieve or exceed a 4.5 percent real rate of return relative to inflation, as measured by the Consumer Price Index (CPI), over a 10-year period;
- Relative to asset allocation targets, generate a return equal to, or in excess of, the weighted average passive benchmark for all asset classes within the portfolio;
- The benchmark and structure for global equity will be to passively track the broad global stock market as defined by the Dow Jones Global Stock Market Index; and
- The long-term goals of the fixed income portfolio are to return more than inflation and to limit volatility for the total portfolio.

Risk Constraint Standards

- 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.
- No corporate fixed income issue's cost shall exceed 3 percent of the Fund's fair value at the time of purchase, nor shall its fair value exceed 6 percent of the Fund's fair value at any time per RCW 43.33A.140.
- Diversify the assets at a prudent level to moderate fluctuations in the fair value of the program.

Permissible Investments

- Global Equity
- Inflation Indexed Bonds
- U.S. Treasuries and Government Obligations
- Credit Bonds (Investment grade or higher at time of purchase)
- WSIB Bond Market Fund
- Cash equivalent funds
- Derivatives

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.

Asset Allocation

The asset allocation will be reviewed every three years, or sooner, if there are significant changes in program size, funding status, or liability duration. 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 transactions costs and, therefore, need not occur immediately.

The asset allocation strategy for the GET Fund is as follows:

Asset Class	Target	Range
Global Equities	60%	55%-65%
Fixed Income	20%	16%-24%
Inflation Indexed Bonds	20%	16%-24%
Cash	0%	0%-5%

Schedule 1: Schedule of Maturities and Credit Ratings

Investment Type	Total Fair Value	Maturity: Less than 1 year	Maturity: 1-5 years	Maturity: 6-10 years	Maturity: More than 10 years	Effective Duration	Credit Rating
Treasury Inflation Protected Securities	$ 460,227,280	$ 75,656,823	$ 130,346,985	$ 44,033,290	$ 210,190,182	7.21	AAA
Commingled Intermediate Credit	476,422,212	44,595,732	251,321,337	175,643,842	4,861,301	4.20	Schedule 2
	936,649,492	$ 120,252,555	$ 381,668,322	$ 219,677,132	$ 215,051,483	5.68	
Investments Not Required to be Categorized							
Equity Securities	1,666,902,996						
Cash and Cash Equivalents	47,285,675						
Total Investments Not Categorized	1,714,188,671						
Total Investments	$ 2,650,838,163						

Schedule 2: Additional Credit Rating Disclosures

Commingled Intermediate Credit

Moody's Equivalent Credit Rating	Total Fair Value
Aaa	$ 47,593,036
Aa1	3,437,642
Aa2	10,378,098
Aa3	56,058,630
A1	33,889,134
A2	55,389,688
A3	64,505,242
Baa1	52,277,917
Baa2	80,266,123
Baa3 and below	72,626,702
Total Fair Value	$ 476,422,212

Schedule 3: Foreign Currency Exposure by Currency

Foreign Currency Denomination	Investment Type In U.S. Dollar Equivalent: Cash and Cash Equivalents	Equity Securities	Total	Percent of Total GET Funds Investments
AUSTRALIAN DOLLAR	$ 228,251	$ 45,775,804	$ 46,004,055	1.7%
BRAZILIAN REAL	47,246	18,399,845	18,447,091	0.7%
CANADIAN DOLLAR	106,373	65,957,818	66,064,191	2.5%
SWISS FRANC	17,804	51,526,001	51,543,805	1.9%
CHILEAN PESO	56,585	2,461,312	2,517,897	0.1%
COLOMBIAN PESO	145,304	1,607,085	1,752,389	0.1%
DANISH KRONE	37,693	9,408,387	9,446,080	0.4%
EURO CURRENCY	424,476	182,326,486	182,750,962	7.0%
POUND STERLING	684,916	130,140,159	130,825,075	4.9%
HONG KONG DOLLAR	99,925	49,993,943	50,093,868	1.9%
INDONESIAN RUPIAH	221,802	4,485,322	4,707,124	0.2%
ISRAELI SHEKEL	64,749	3,545,802	3,610,551	0.1%
INDIAN RUPEE	525,387	13,230,336	13,755,723	0.5%
JAPANESE YEN	695,523	127,211,772	127,907,295	4.8%
SOUTH KOREAN WON	140,934	28,454,518	28,595,452	1.1%
MEXICAN PESO (NEW)	37,841	8,530,260	8,568,101	0.3%
MALAYSIAN RINGGIT	343,566	6,994,009	7,337,575	0.3%
NORWEGIAN KRONE	88,012	6,298,269	6,386,281	0.2%
NEW ZEALAND DOLLAR	67,692	1,199,185	1,266,877	0.1%
PHILIPPINE PESO	116,969	1,971,513	2,088,482	0.1%
POLISH ZLOTY	28,990	2,831,097	2,860,087	0.1%
SWEDISH KRONA	104,699	19,376,608	19,481,307	0.7%
SINGAPORE DOLLAR	404,392	9,580,409	9,984,801	0.4%
THAILAND BAHT	231,675	3,688,943	3,920,618	0.1%
TURKISH LIRA	71,620	2,959,029	3,030,649	0.1%
NEW TAIWAN DOLLAR	534,454	23,806,209	24,340,663	0.9%
SOUTH AFRICAN RAND	111,233	13,689,633	13,800,866	0.5%
OTHER - MISCELLANEOUS	75,970	2,041,013	2,116,983	0.1%
	$ 5,714,081	$ 837,490,767	$ 843,204,848	31.8%

DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST FUND

petersonsullivan LLP
Certified Public Accountants
& Advisors

Independent Auditor's Report

To the Members of the Washington State Investment Board

Olympia, Washington

We have audited the accompanying financial statements of the Developmental Disabilities Endowment Fund of the State of Washington as managed by the Washington State Investment Board ("the Developmental Disabilities Endowment Fund"), which comprise the statement of net investment position as of June 30, 2014, and the related statement of changes in net investment position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net investment position of the Developmental Disabilities Endowment Fund as of June 30, 2014, and the changes in net investment position for the year then ended in accordance with accounting principles generally accepted in the United States.

petersonsullivan LLP
Certified Public Accountants
& Advisors

Management Discussion and Analysis

Accounting principles generally accepted in the United States require that the management's discussion and analysis preceding the financial statements be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

/S/ PETERSON SULLIVAN LLP

September 25, 2014

Management Discussion and Analysis

Management's Discussion and Analysis for the Developmental Disabilities Endowment Trust Fund (DDEF) of Washington State, managed by the Washington State Investment Board (WSIB), is presented as an introduction to the financial statements. It is meant to assist the reader in understanding the financial statements by providing an overall review of the financial activities during the year as well as to provide a comparison to the prior year's activities and results. The WSIB manages funds for other Washington State departments. This section of the report covers the DDEF only.

The financial statements and footnotes follow this section of the report. The Statement of Net Investment Position provides information on the types of investments, assets, and liabilities of the DDEF as of June 30, 2014. This information is summarized in Table 1. Table 1 also compares the asset, liability, and net investment balances at June 30, 2014, with those at June 30, 2013. The Statement of Changes in Net Investment Position provides information on investment performance and other increases and decreases in the net investment position of the DDEF for the year ended June 30, 2014. This information is summarized in Table 2. Table 2 also compares the financial activities of the DDEF for the year ended June 30, 2014, with those of the year ended June 30, 2013. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements of the DDEF.

Net investment returns for the significant asset classes and in total for the DDEF for the current fiscal year compared to the prior fiscal year are as follows:

	Developmental Disabilities Endowment Trust Fund - State		Developmental Disabilities Endowment Trust Fund - Private	
Asset Class	**FY 2014**	**FY 2013**	**FY 2014**	**FY 2013**
Cash and Cash Equivalents	0.1%	0.1%	0.1%	0.1%
Treasury Inflation Protected Securities	3.7%	-3.8%	NA	NA
Commingled Intermediate Credit Fund	6.1%	1.2%	NA	NA
Equity Securities - U.S.	25.2%	21.6%	NA	NA
Equity Securities - Non U.S.	22.4%	13.8%	NA	NA
Commingled Balanced Trust	NA	NA	16.4%	12.2%
Total Investment Return	8.1%	2.1%	16.4%	12.2%

As shown in Table 1, the net investment position of the DDEF increased by $7.2 million during the fiscal year ended June 30, 2014. The increase in net investment position was primarily due to the contributions to the private trust fund of $1.7 million and realized and unrealized gains of $4.9 million. The remaining net investment position increase was the result of net investment earnings reinvested within the DDEF funds.

Table 1 - Summarized Net Investment Position				
	2014	2013	Dollar Change	Percent
Cash and Cash Equivalents	$ 118,926	$ 67,784	$ 51,142	75.4%
Debt Securities	9,102,149	8,728,755	373,394	4.3%
Equity Securities	2,283,662	1,842,958	440,704	23.9%
Balanced Funds	34,206,375	27,840,132	6,366,243	22.9%
Total Investments	**45,711,112**	**38,479,629**	**7,231,483**	**18.8%**
Earnings Receivable	24,462	24,001	461	1.9%
Total Assets	**45,735,574**	**38,503,630**	**7,231,944**	**18.8%**
Investment Liabilities	115	113	2	1.8%
Net Investment Position	**$ 45,735,459**	**$ 38,503,517**	**$ 7,231,942**	**18.8%**

The following summarizes the changes within each grouping listed in Table 1:

- Cash and cash equivalents increased by $0.1 million. Cash balances represents less than 1 percent of total investments and are within policy ranges. Net investment income and contributions received are invested into money market funds and subsequently reinvested in longer term securities. Money market balance fluctuations are a result of the timing of cash received and the reinvestment to other asset classes.
- Debt securities increased by $0.4 million. This increase is due entirely to realized and unrealized gains within the fixed income portfolio. Approximately half the debt securities are comprised of Treasury Inflation Protection Securities (TIPS), which returned 3.7 percent during the current fiscal year. Other debt securities, comprised mostly of investment grade corporate debt, returned 6.1 percent during the same time period. U.S. TIPS had strong performance during the current fiscal year. TIPS benefitted from modestly rising inflation as measured by the Consumer Price Index. Investment grade corporate fixed income benefitted from spreads tightening which led to outperformance versus Treasuries. Default activity for investment grade issuers and spreads relative to Treasuries are low relative to historical standards.
- Balanced mutual funds increased $6.4 million. Private trust fund contributions of $1.7 million were invested in this asset class. Realized and unrealized gains increased the portfolio by $4.1 million. The remaining increase was due to the reinvestment of income within the fund. The balanced mutual fund is invested for the purpose of capital appreciation, current income, and long term growth through a mix of 60 percent equities and 40 percent bonds. The overall performance in the current fiscal year was 16.4 percent.
- Equity securities increase of $.4 million was entirely due to performance within the equity markets. For the second straight year, equity markets in developed countries overcame much of the uncertainty that has plagued the macroeconomic environment and delivered strong returns. The DDEF U.S. equity portfolio returned 25.2 percent and the DDEF non-U.S. equity portfolio returned 22.4 percent during the current fiscal year. Overall, the U.S. equity market, as measured by the MSCI U.S. IMI index, rose 25.2 percent during the current fiscal year. Emerging markets continued to lag developed markets, mainly driven by concerns of an economic slowdown in China. Emerging markets equity returns were comparatively modest but still posted a 14.3 percent gain for the fiscal year.

As shown in Table 2, net investment income increased by $2.4 million from the prior year almost entirely due to increases in the market value of the underlying investments (realized and unrealized gains and losses). All asset classes experienced positive investment returns in the current fiscal year contributing to the market appreciation. Contributions decreased over the prior year as the private trust fund received less funds from participants during the current fiscal year. The DDEF State portfolio returned 8.1 percent during the current fiscal year and the DDEF Private portfolio returned 16.4 percent for the same time period.

Table 2 - Summarized Changes in Net Investment Position

	2014	2013	Dollar Change
Net Investment Income			
Investment Income	$ 666,328	$ 598,663	$ 67,665
Net Capital Gains	369	49,290	(48,921)
Unrealized Gains	4,889,099	2,468,897	2,420,202
Less:			
Investment Expenses	(3,749)	(3,213)	536
Net Investment Income	**5,552,047**	**3,113,637**	**2,438,410**
Net Amount Contributed	1,679,895	2,008,093	(328,198)
Net Investment Position - Beginning	**38,503,517**	**33,381,787**	**5,121,730**
Net Investment Position - Ending	**$ 45,735,459**	**$ 38,503,517**	**$ 7,231,942**

The fair value of the DDEF net investment position is directly impacted by the returns of the various capital markets within which the WSIB invests, and the returns are expected to have a significant effect on financial position and results of operations in the future. However, one of the benefits of diversification gained by investing across various investment types, as well as broadly within an asset class, is the reduction in aggregate volatility of the total investment portfolio. The WSIB, with concurrence from the Developmental Disabilities Life Opportunities Trust Governing Board, makes the asset allocation decisions for the DDEF assets. WSIB staff rebalances the DDEF's assets between asset classes as markets move, pursuant to WSIB policy.

DDEF Statement of Net Investment Position - June 30, 2014

See notes to financial statements

	Developmental Disabilities Endowment Trust Fund State	Developmental Disabilities Endowment Trust Fund Private	Total	Percent of Total
ASSETS				
Investments:				
CASH AND CASH EQUIVALENTS				
Money Market Funds	$ 109,176	$ 9,750	$ 118,926	0.4%
DEBT SECURITIES				
Treasury Inflation Protected Securities	4,520,846	-	4,520,846	9.9%
Commingled Intermediate Credit	4,581,303	-	4,581,303	10.0%
EQUITY SECURITIES				
Commingled Equity Index Funds	2,283,662	-	2,283,662	5.0%
BALANCED FUNDS				
Commingled Balanced Trust	-	34,206,375	34,206,375	74.7%
Total Investments	11,494,987	34,216,125	45,711,112	100.0%
Investment Earnings Receivable	24,462	-	24,462	
Total Assets	11,519,449	34,216,125	45,735,574	
LIABILITIES				
Accrued Expenses Payable	115	-	115	
NET INVESTMENT POSITION	**$ 11,519,334**	**$ 34,216,125**	**$ 45,735,459**	

DDEF Statement of Changes in Net Investment Position - Year Ended June 30, 2014

See notes to financial statements

	Developmental Disabilities Endowment Trust Fund State	Developmental Disabilities Endowment Trust Fund Private	Total
Net Investment Income			
Investment Income:			
Interest, Dividends and Other Investment Income	$ 54,101	$ 612,227	$ 666,328
Net Realized Capital Gains	369	-	369
Unrealized Gains	812,402	4,076,697	4,889,099
Less:			
Investment Expenses	(923)	(931)	(1,854)
WSIB Operating Expenses	(1,895)	-	(1,895)
Net Investment Income	864,054	4,687,993	5,552,047
Net Amount Contributed	1,895	1,678,000	1,679,895
Increase in Net Investment Position	865,949	6,365,993	7,231,942
Net Investment Position, June 30, 2013	10,653,385	27,850,132	38,503,517
Net Investment Position, June 30, 2014	$ 11,519,334	$ 34,216,125	$ 45,735,459

Notes to Financial Statements

Note 1. Description of Funds and Significant Accounting Policies

Description of Funds

The Developmental Disabilities Endowment Fund (DDEF) of Washington State consists of two funds. The State Trust Fund was originally created from a grant by Washington State. The Private Trust Fund consists of contributions by private individuals participating in the program. These funds are invested by the WSIB until participants withdraw funds as needed. The financial statements present only the activity of the DDEF as managed by the WSIB. The WSIB has exclusive control of the investments held by the DDEF. The financial statements do not present the financial position and results of operations of the WSIB or the activity of the DDEF.

Basis of Accounting

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States for governments prescribed by the Governmental Accounting Standards Board (GASB) on the accrual basis of accounting.

Valuation of Investments

Investments are reported at fair value. Fair values are based on published market prices, quotations from national security exchanges, and security pricing services. Investments are adjusted to fair values monthly. Unrealized gains and losses are included as investment income in the Statement of Changes in Net Investment Position.

Revenue Recognition

Interest and dividend income are recognized when earned. Capital gains and losses are recognized on a trade date basis. Purchases and sales of investments are also recorded on a trade date basis.

Securities Lending

DDEF reports collateral received under securities lending agreements where the DDEF has the ability to spend, pledge, or sell the collateral without borrower default. Liabilities resulting from these transactions are also recorded. Additionally, costs associated with securities lending transactions, including broker commissions paid and lending fees paid to the custodian bank, are reported as investment expenses in the accompanying financial statements. The Statement of Net Investment Position does not include detailed holdings of securities lending collateral by investment classification.

Contributions and Withdrawals

Contributions and withdrawals are recorded when received or paid.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

Note 2. Fees and Expenses

Investment fees and expenses are accounted for as a reduction of investment income or are netted directly from the asset value of the DDEF's investments. These fees include investment management fees and commissions, investment consultant fees, legal fees, and other investment management related expenses. The WSIB operating expenses are charged to the funds based upon actual costs incurred to manage the investments. WSIB operating expenses are allocated to the funds under management based on relative market values, in accordance with state statutes.

Note 3. Deposit and Investment Risk Disclosures

Custodial Credit Risk

Custodial credit risk is the risk that in the event a depository institution or counterparty fails, the DDEF Funds will not be able to recover the value of its deposits, investments, or collateral securities. As of June 30, 2014, investment securities (excluding cash, cash equivalents, and repurchase agreements held as securities lending collateral) are registered and held in the name of the WSIB for the benefit of the DDEF Funds, and are not exposed to custodial credit risk. There are no general policies relating to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. The risk is managed within the portfolios using effective duration which is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. The DDEF's investment policies require the duration range for the commingled intermediate credit fund not exceed plus or minus 15 percent of the Barclays Capital Intermediate Credit Index. Increases in prevailing interest rates generally translate into decreases in fair values of fixed income investments.

Schedule 1 and 2 provide information about the interest rate risks associated with the DDEF investments as of June 30, 2014. The schedules display various asset classes held by maturity in years, effective durations, and credit ratings. Fixed income securities are reported using the average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity for these securities, taking into account possible prepayments of principal.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The DDEF Funds' investment policies limit the fixed income securities to U.S. Inflation Indexed Bonds, and an internally managed bond fund consisting of corporate and foreign government and agency bonds. All fixed income securities must be investment grade or higher at the time of purchase. Investment grade securities are those fixed income securities with a Moody's rating of Aaa to Baa or a Standard and Poor's rating of AAA to BBB.

The DDEF's rated debt investments as of June 30, 2014, were rated by Moody's or equivalent rating methodology.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. RCW 43.33A.140 requires corporate fixed income securities cost may not exceed 3 percent of the DDEF Funds fair value at the time of purchase, nor shall its fair value exceed 6 percent of the DDEF Funds' fair value at any time. There was no concentration of credit risk that exceeded these limits as of June 30, 2014.

Foreign Currency Risk

Foreign currency risk is defined as any deposits or investments that are denominated in foreign currencies, which bear a potential risk of loss arising from changes in currency exchange rates. DDEF has no formal policy to limit foreign currency risk. The only security held by the DDEF with foreign currency exposure at June 30, 2014, consists of $949,671 invested in various international commingled equity index funds.

Note 4. Securities Lending

Washington State law and WSIB policy permit DDEF to participate in securities lending programs to augment investment income. The WSIB has entered into an agreement with State Street Corporation to act as agent for the WSIB in securities lending transactions. As State Street Corporation is the custodian bank for the WSIB, it is counterparty to securities lending transactions.

Securities on loan remain in the Statement of Net Investment Position in their respective categories. Cash collateral received is reported as a securities lending obligation, and the fair value of the reinvested cash collateral is reported as a security lending collateral in the Statement of Net Investment Position. Securities received as collateral where the DDEF does not have the ability to pledge or sell the collateral unless the borrower defaults are not reported as assets and liabilities in the Statement of Net Investment Position. During the current fiscal year no available securities were on loan. Accordingly, there were no assets on loan at June 30, 2014, and no collateral held related to securities lending transactions in the DDEF Funds.

Note 5. Summary of Investment Policy

Under RCW 43.33A.030, trusteeship of DDEF is vested within the voting members of the WSIB. The Legislature has established a standard of care for investment of these funds in RCW 43.33A.140. Additionally, the WSIB 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 following 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 determinate is identifying the prudent level of risk for a program relative to the needs of the Developmental Disabilities Life Opportunities Trust Governing Board and the participants. Based on this requirement, the order of the objectives shall be:

- Maximize return at a prudent level of risk based on identified investment time horizons;
- Ensure sufficient assets are available to fund the expected needs; and
- Invest in a manner that will not compromise public confidence in the program.

Risk Constraint Standards

- 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; which state, in part, that the WSIB is to "invest and manage the assets entrusted to it with reasonable care, skill, prudence and diligence under circumstances then prevailing which a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an activity of like character and purpose."; and
- Diversify the assets at a prudent level to moderate fluctuations in the fair value of the program.

Permissible Investments

Fixed Income: The fixed income portfolio will be limited to the Bond Market Fund (WSIB Policy 2.14.200). The Treasury Inflation Protected Securities portfolio will be invested in U.S. Inflation Indexed Bonds.
U.S. Equity: The U.S. equity portfolio will be invested in a passive commingled fund managed to track a U.S. broad market index, currently the MSCI U.S. Investable Market Index (MSCI U.S. IMI).
Balanced Mutual Funds: DDEF – Private will invest in the Vanguard Balanced Index – Institutional Share's mutual fund.
Non-U.S. Equity: The international equity portfolio will be invested in a passive commingled fund managed to track a broad non-U.S. market index, currently the MSCI All Country ex U.S. Investable Market Index (MSCI ACWI ex U.S. IMI).
Cash: The cash portfolio will be invested in Short-term Investment Funds and Money Market Funds.

Asset Allocation

The asset allocation policy has been developed with the performance objectives of:

- Short-term: Earn a rate of return that exceeds inflation, with a bias toward preservation of corpus; and
- Long-term: Earn a rate of return that exceeds inflation plus a set spending rate.

Assets are rebalanced across asset classes when market values fall outside respective policy ranges as follows:

State Funds	Target	Range
Cash	0%	0-5%
Fixed Income	41%	38-44%
U.S. Equity	9%	6-12%
International Equity	8%	5-11%
TIPS	42%	39-45%

Private Funds	Target
Cash	$10,000
Fixed Income	40%
Equity	60%

Schedule 1: Schedule of Maturities and Credit Ratings

Investment Type	Total Fair Value	Maturity: Less than 1 year	Maturity: 1-5 years	Maturity: 6-10 years	Maturity: More than 10 years	Effective Duration	Credit Rating
Treasury Inflation Protected Securities	$ 4,520,846	$ -	$ 4,191,109	$ 329,737	$ -	4.68	AAA
Commingled Intermediate Credit	4,581,303	428,835	2,416,720	1,689,001	46,747	4.20	Schedule 2
	9,102,149	$ 428,835	$ 6,607,829	$ 2,018,738	$ 46,747		
Investments Not Required to be Categorized							
Commingled Equity Index Funds	2,283,662						
Commingled Balanced Trust	34,206,375						
Money Market Funds	118,926						
Total Investments Not Categorized	36,608,963						
Total Investments	$ 45,711,112						

Schedule 2: Additional Credit Rating Disclosures

Moody's Equivalent Credit Rating	Market Value
Aaa	$ 457,658
Aa1	33,057
Aa2	99,796
Aa3	539,063
A1	325,880
A2	532,630
A3	620,286
Baa1	502,707
Baa2	771,844
Baa3 and below	698,382
Total Fair Value	$ 4,581,303

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