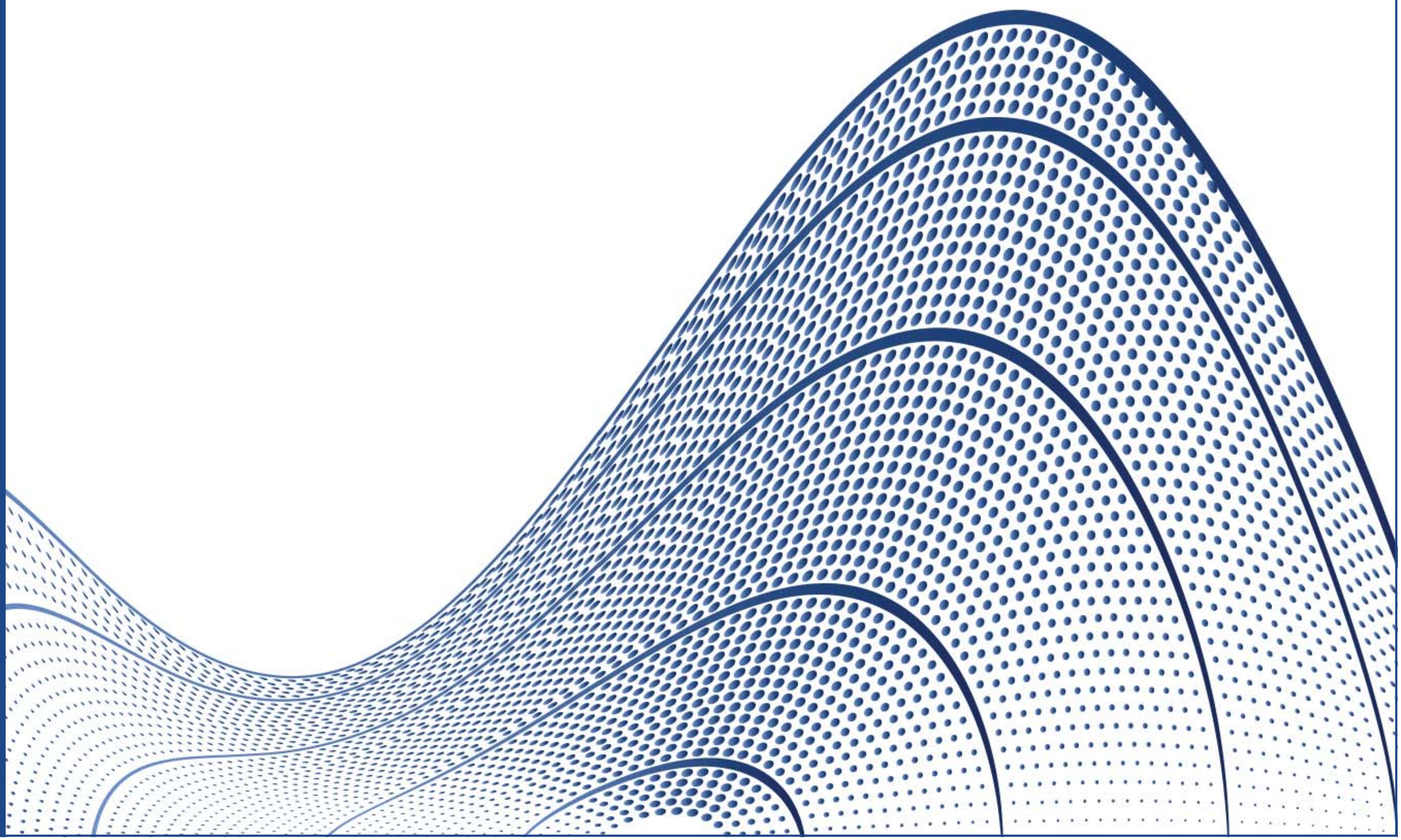
WASHINGTON STATE INVESTMENT BOARD

THIRTY-SEVENTH ANNUAL REPORT

2018



INTRODUCTION

LETTER OF TRANSMITTAL

The investment marketplace is proving to us that economic growth and global uncertainty can coexist, even if they are odd and uncomfortable companions. The traditional notion of bull vs. bear markets appears to have been reshaped into a strange creature wearing the head of a bull and the hind quarters of a bear. Frankly, no one really knows which direction this fickle beast will go, nor should we divert our eyes for long.

As fiscal year (FY) 2018 ends, we have seen remarkably broad growth. Equities in the world's developed economies generated a return of 11.6% for the 12 months ending June 30, 2018 (performance of the MSCI World Developed IMI). The Washington State Investment Board's (WSIB) much more diversified commingled trust fund (CTF) returned 10.2% for the same year. Strong equity performance was accompanied by historically low unemployment; corporate earnings were generally strong; wages showed signs of increasing after lagging corporate profits for a lengthy period. On the other hand, the past fiscal year saw three hikes in interest rates, putting downward price pressure on our fixed income assets. Geopolitical stress has come in the form of tariff tensions, a longstanding Brexit puzzle, rife political partisanship, and waves of extremist populism. After an extended hibernation, market volatility re-emerged during early 2018.

An influx of external issues also have come center stage. Environmental concerns are sharply focused on global sustainability and climate risk. Many investors like the WSIB are studying methods for assessing these and other social risk issues within a strategic framework of discipline and diversification.

As investors, today's conditions represent a test not entirely different from what we experienced a decade ago in the trauma of the Great Recession. Today's test asks us whether, after lengthy recovery cycle, are we well-equipped to withstand negative returns when (not if) they occur? Are we prepared to remain steadfast in our disciplined long-term strategies when (not if) we see short-term losses? Are we adaptable and accountable enough to find better ways to evaluate risks without compromising the essential duties that come with being a public fiduciary?

Our staff and Board members are well-equipped to take up this challenge as we have in the past. We have the capabilities, focus and fortitude to continue pursuing the best long-term interests of all our beneficiaries, regardless of various issues that earn popular favor or disfavor at any given point. At the same time, we know better than to resist change. As always, we will continue to adapt ourselves to improve risk management methods and risk-adjusted investment strategies as proven advancements surface.

At the WSIB, an enduring benefit requires an enduring discipline, especially in the face of volatile uncertainties. We understand that our stakeholders – public employees, teachers, firefighters, law enforcement officers and others -- rely on our investment outcomes. We understand that our investment partners must share our values as well as our financial objectives. We know the enterprises in which we invest must engage with us on issues that involve governance, transparency, sustainability and a commitment to long-term outcomes.

By intelligently blending discipline and adaptability, we will remain committed to our beneficiaries while upholding a retirement system that is built to remain a top-ranked performer amid a world of change and uncertainty.

Sincerely,

Theresa Whitmarsh, Executive Director

MESSAGE FROM THE CHAIR

I am honored to be serving as chair of the WSIB, one of the preeminent public trust and retirement funds in the country. My pride in this role stems not just from the long-term financial benefits we are providing to our stakeholders, but from the manner in which we are fulfilling this mission. Our Board members focus on a unifying mission as we work through the complex issues that come with being a public fiduciary.

Our mission-driven focus is deliberate. Our Board's membership structure is carefully designed to bring a variety of views and expertise to the governance of our state's retirement plans system. Our balanced structure gives us a tremendous advantage because it allows for individual views but aligns us to common interests. Our Board consists of five ex-officio members who are public officials; five members appointed as representatives of our stakeholders; and five non-voting members who have extensive professional experience in the investment industry. It's a deliberate blend of public accountability, representation and knowledge – all tied together by a drive to service our beneficiaries at large.

The result is a well-funded retirement system and a globally diversified investment program that produces strong long-term investment returns so that beneficiaries and other stakeholders achieve a healthy financial future. Our core mission – maximizing long-term returns at a prudent level of risk – is the guiding principle that we use in our decision-making. As we face market uncertainties, environmental concerns, social issues and political agendas, we ultimately must consider how best to pursue diligent financial performance while taking into account a wide array of multi-faceted risks. To do this, we depend on careful analysis and honest, enduring relationships to build an investment program focused on global diversification, private and public markets exposure, and long-term results.

Our job as Board members does not entail timing the markets or trying to pick next year's winners. Instead, our job is to help state and public employees, teachers, law enforcement officers, firefighters and others achieve financial security for the duration of their retirement. We want our stakeholders to be confident that we are doing everything possible to ensure strong investment outcomes over lengthy time horizons. We want to create a financial engine for a retirement system that generates about $4 billion in benefit payments each year for more than 750,000 active and retired public employees. The WSIB's investment returns significantly reduce the costs otherwise borne by taxpayers, public agencies and public employees.

As of the end of this fiscal year, the WSIB is managing $130 billion in total assets, which includes more than $100 billion in the CTF for retirement plans. The annualized rate of return for the CTF since inception is 8.8 percent. Return rates for three-, five-, and 10-year return rates are 8.7 percent, 9.5 percent, and 6.6 percent, respectively. Current results put us among the top decile among our peer programs.

In all of this, we understand that recent years of strong market performance can and will change. We understand that our investment discipline must take into account new and evolving issues that involve popular and unpopular issues. We are honored to being serving our beneficiaries with a global investment program built for the long run. We are pleased to present the WSIB's Annual Report for the fiscal year ending June 30, 2018.

Sincerely,
Judy Kuschel, Chair

BOARD MEMBERS AND COMMITTEES

The WSIB is an independent Board of Trustees whose fiduciary responsibility is to manage retirement and public fund investments with the highest standard of professional conduct. The Board's primary investment objective is to maximize returns at a prudent level of risk for the exclusive benefit of fund participants and beneficiaries. Individual Board members are recommended by the Chair and appointed by the Board to serve on any of the Board's four different committees to more efficiently analyze investment and governance issues. Committee recommendations are brought to the Board for consideration and a vote.

Administrative Committee

The Administrative Committee has oversight of general policy and organizational issues: personnel, budget, legislative program; legal services; nomination of non-voting Board members, and other issues not included in other committee charters.

Audit Committee

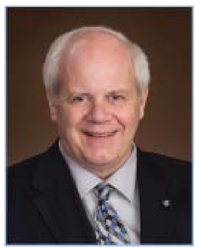
The Audit Committee has oversight of audits of Board activities and operations: compliance, risk management, internal/external audits, financial reporting, and internal controls. It is also responsible for development of policies and procedures for corporate governance and oversight of the Conflict of Interest Policy.

Private Markets Committee

The Private Markets Committee develops strategy, provides oversight, and makes recommendations to the Board for investments in real estate, private equity, tangible assets, and other direct or private transactions.

Public Markets Committee

The Public Markets Committee develops strategy, provides oversight, and makes recommendations to the Board for public markets investments, including the Labor & Industries (L&I) portfolio, fixed income, and equity portfolios.



Treasurer
Duane Davidson

Tracy Guerin

Joel Sacks
Vice-Chair

Greg Markley

Judy Kuschel
Chair

Yona Makowski

Stephen Miller

Arlista D. Holman

Representative
Timm Ormsby

Senator
Mark Mullet

David
Nierenberg

William A.
Longbrake

Richard
Muhlebach

Mary Pugh

George Zinn

EXECUTIVE MANAGEMENT

Theresa J. Whitmarsh

Executive Director

The WSIB's Executive Director is appointed by the Board to oversee the staff, develop and recommend agency and investment policies for Board adoption, and ensure adherence to state policies and laws.

Gary Bruebaker, CFA, CPA

Chief Investment Officer (CIO)

The CIO oversees the Investment Division, which is comprised of investment professionals responsible for each of the major asset classes including public equity, private equity, real estate, fixed income and tangible assets. Also under direction of the CIO, a senior investment officer develops asset allocation and risk budgeting strategies. The division deploys both internal and external investment management strategies.

Ian Cameron

Chief Operating Officer/Chief Financial Officer (COO/CFO)

The COO/CFO oversees the Operations Division, which provides functional services enabling investment transactions, accounting, trade settlement, cash management, private market funding, cash and stock distributions, foreign and domestic tax matters and investment compliance. This division also provides agency-wide risk management, information systems management, and administrative services.

Chris Phillips

Institutional Relations Director

The Institutional Relations Director is responsible for communications, public affairs and client services essential to the agency's role as public fiduciary and institutional asset manager. These services include performance reporting, public relations, media inquiries, corporate governance, legislative relations and stakeholder relations.

Tammy Wood

Human Resources Director

The Human Resources Director is responsible for facilitating the hiring and retention of skilled employees and for positioning the agency as a successful destination workplace that contributes to the organization's mission. Key areas of responsibility include professional coaching and development, talent acquisition, workplace and career planning, and management of all human resource functions, including the application of Civil Service Rules and state and federal employment laws.

CTF PARTNERS & FUND MANAGERS

Private Equity Partners

Accel Partners
Actis
Advent International
Affinity Equity Partners
Alta Communications
Apax Partners
Apex Investment Partners
Austin Ventures
Avenue Capital Group
Banc Funds
Battery Ventures
BC Partners
BGH Capital
Blackstone Group
Bridgepoint Capital
Canaan Partners
Carlyle Group
CDH Investments
Charterhouse Capital Partners
Cinven Ltd.
Code, Hennessy & Simmons
Denham Capital
Edgewater Funds
Collinson, Howe and Lennox
EIG Global Energy Partners
El Dorado Ventures
Endeavour Capital
Essex Woodlands
Evergreen Pacific Partners
First Reserve Corp.
Fisher Lynch Capital
Fortress Investment Group
FountainVest Partners
Francisco Partners
Frazier & Co.
Friedman Fleischer & Lowe
GGV Capital
GI Partners
Gilbert Global Equity Partners
GTCR
H.I.G. Ventures
HarbourVest Partners
Hellman & Friedman
Insight Venture Partners
Intersouth Partners
JMI Equity
Kohlberg Kravis Roberts & Co.
HarbourVest Partners
KSL Capital Partners
Leonard Green & Partners
Madison Dearborn Partners
MatlinPatterson Global Advisors
Menlo Ventures
Mobius Venture Capital
Morgan Stanley Venture Partners
New Enterprise Associates
New Mountain Capital
Nordic Capital
Oak Investment Partners
Oaktree Capital Mgmt.
OVP Venture Partners
PAG Asia Capital
PAI Partners
Palamon Capital Partners
Permira
Polaris Venture Partners
Providence Equity Partners
Rhone Capital
Roark Capital Group
Sequoia Capital
Silver Lake Partners
Rhone Capital
Southern Cross Group
Spark Mgmt. Partners
Stone Point Capital
TA Associates
Tailwind Capital Partners
Technology Crossover Ventures
The Riverside Company
Three Arch Partners
TowerBrook Capital Partners
TPG Partners
Trident Capital Partners
Triton Partners
U.S. Venture Partners
Union Square Ventures
Unitas Capital
VantagePoint Venture Partners
Vestar Capital Partners
Vivo Ventures
Warburg Pincus
Wellspring Capital Management

CTF PARTNERS & FUND MANAGERS

Real Estate Partners

Aevitas Property Partners
Calzada Capital Partners
Cherokee
Emerging Markets Fund of Funds
Evergreen Investment Advisors
Fillmore Capital Partners
Global Co-Investment
Hemisferio Sul
Hudson Advisors
Morgan Stanley
Pacific Realty
Principal Enterprise Capital
Proprium
Warburg Pincus

Tangibles Partners

Agriculture Capital
Alinda Capital Partners
Barings
EnerVest, Ltd
Geronimo Energy
Global Infrastructure Partners
Highstar Capital
Homestead Capital
I Squared Capital
International Farming Corporation
KKR
Laguna Bay Pastoral Company
Lime Rock Resource
Orion Resource Partners
Prostar Capital
Reservoir Resource Partners
Sheridan Production Partners
Silver Creek Advisory Partners
Stonepeak Advisors
Teays River Investments
UBS Farmland Investors
Warwick Mangement Company

Overlay Manager

State Street Global Advisors

Public Equity Fund Managers

AQR Capital Management
Arrowstreet Capital, L.P.
BlackRock Institutional Trust Co.
Brandes Investment Partners
DE Shaw Investment Mgmt.
Lazard Asset Mgmt. LLC
Longview Partners
Magellan Asset Mgmt. Ltd.
Mondrian Investment Partners Ltd
State Street Global Advisors
William Blair & Co.

The WSIB believes a strong, focused corporate governance program is a cornerstone of asset stewardship. Through active support of corporate governance measures and prudent proxy voting policies and activities, the WSIB works to enhance shareowner value, and supports our long-term investment objectives and our aim of investing with integrity, prudence and skill.

Effective corporate governance relies on a system of checks and balances to foster transparency, responsibility, accountability and market integrity. A growing body of empirical research points to the impact of responsible governance practices, demonstrating that companies with strong corporate governance tend to have lower risk of fraud and higher returns. As one of the country's largest institutional investors, the WSIB believes the proxy voting ballot is one of the most effective ways to positively influence companies toward greater board accountability, genuine transparency and increased focus on long-term management and growth strategies. The WSIB also views engagement with investee companies and other like-minded industry bodies, as a powerful asset stewardship tool.

Proxy season 2018 major trends included an increase in the number of majority-supported environmental and social (E&S) shareholder proposals (SHPs), a record number of SHPs withdrawn ahead of meetings following successful engagement with target companies, and a continued focus on corporate/political spending and diversity-related SHPs. During the 2018 proxy season, nine SHPs received majority support, which was the same in 2016, but an increase from six in 2017. The major compensation-related trend was an increase in number of failed advisory votes on executive compensation ("say-on-pay"). According to Institutional Shareholder Services (ISS) research, the number of Russell 3000 companies with failed votes on that resolution increased from 28 in the 2016 proxy season to 29 in 2017 and 51 in 2018.

The WSIB supported 7 of the 9 climate-related proposals (78 percent) and 9 of 9 proposals asking companies to prepare sustainability reports (100 percent).

The 2018 proxy season was also the first time investors voted on a gun safety resolution. A group of faith-based proponents tabled a resolution at Sturm Ruger & Company asking that company to assess its risks related to its gun products. That SHP, somewhat surprisingly for a first-time resolution, garnered a substantial 68.8% support from investors. In September, a similar resolution was presented on the American Outdoor Brands Corporation ballot, but the votes have not yet been tallied and recorded for that meeting.

The WSIB believes that in order to maximize investment returns, we must remain vigilant in overseeing the management policies and practices of the companies in which we invest. As a long-term investor, the WSIB recognizes the risk of reactively selling its shares if it doesn't like the way a company is performing in the near-term. Therefore, active participation and input with these companies is often a more responsible, more effective approach.

Proxy voting is a constructive means of influence and input for the WSIB. Between July 1, 2017 - June 30, 2018, the WSIB voted on 3,027 meetings globally, including 2,739 in the U.S. Proxy votes were cast on 26,710 individual proposals dealing primarily with election of directors, ratification of auditor, compensation plans and shareholder proposals. During that period, the WSIB withheld or voted against the management recommendation as follows:

- 1,207 of 17,902 of individual director election proposals (6.7 percent)
- 313 of 2,216 advisory votes on executive compensation (14.1 percent)
- 21 of 227 equity compensation plans (9.3 percent)

ENTERPRISE RISK MANAGEMENT

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

A cornerstone of a successful investment strategy is effective risk management. Enterprise Risk Management (ERM) encompasses all forms of risk management activity across the entire agency.

The WSIB's risk framework includes defined key risks, associated risk appetite statements and risk assessments designed to anticipate potential impact on the agency's ability to achieve strategic objectives. The ERM program supports a risk culture where staff are empowered to identify, evaluate, and report risks. Risks are seen as opportunities for success as well as failure.

Fiduciary Risk

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

Investment Risk

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

Strategic Risk

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

Governmental Environment Risk

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

Operational Risk

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

Reputation Risk

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

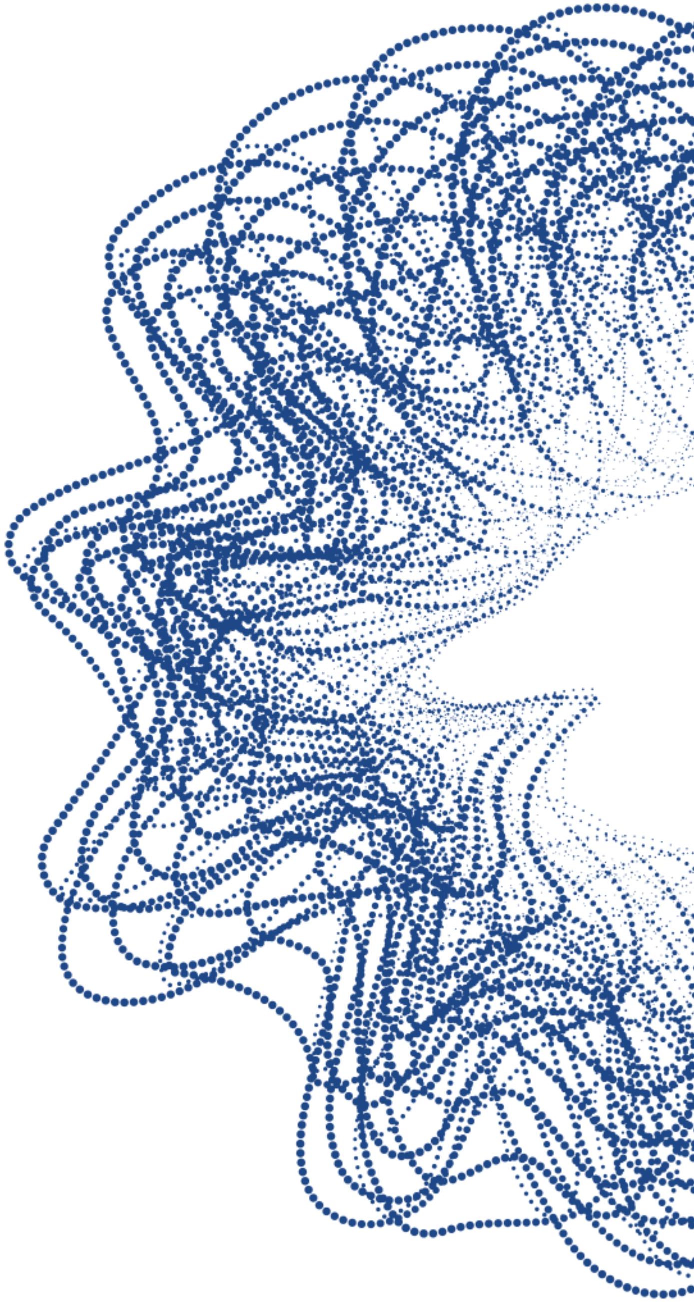
OBJECTS OF EXPENDITURE

APPROPRIATED	Budget	Expenditures	Budget Variance
Salaries	$ 14,470,375	$ 13,617,786	$ 852,589
Benefits	3,862,399	3,691,372	171,027
Professional Service Contracts	337,293	302,948	34,345
Goods and Services	3,628,998	4,040,060	(411,062)
Travel	1,043,763	606,883	436,880
Equipment	157,149	127,700	29,449
Treasury Note	176,351	176,351	-
Subtotal Appropriated	$ 23,676,328	$ 22,563,100	$ 1,113,228 *

NON-APPROPRIATED	Budget	Expenditures	Budget Variance
Public Equity	$ 58,473,132	$ 66,840,829	$ (8,367,697)
Private Equity	239,869,140	220,944,665	18,924,475
Real Estate	51,025,680	39,519,619	11,506,061
Tangible Assets	28,808,783	57,362,437	(28,553,654)
Innovation Portfolio	4,550,841	900,870	3,649,971
General Consultants	1,515,000	562,322	952,678
Staff Consultants	1,345,000	901,497	443,503
Advisory Services Consultants	500,000	-	500,000
Legal Fees	2,930,000	1,181,295	1,748,705
Custodian Bank Fees	500,000	37,161	462,839
Securities Lending	7,111,437	6,202,450	908,987
Cash Management	4,092,578	4,219,286	(126,708)
Cash Overlay	900,000	544,458	355,542
Portfolio Verification - Shadow Investment Accounting System	1,402,500	628,615	773,885
Memberships	217,350	121,633	95,717
Research Services	2,849,000	3,057,809	(208,809)
Subtotal Non-Appropriated	406,090,441	403,024,946	3,065,495
TOTAL	$ 429,766,769	$ 425,588,046	$ 4,178,723

* The Balance will be carried forward to fiscal year 2019 since we are granted a biennial appropriation

INVESTMENTS



CTF INVESTMENT SUMMARY OF THE LAST YEAR

Strategic Asset Allocation

Strategic asset allocation is the process of selecting a mix of asset classes, such as stocks and bonds, and determining their proportions within an investment portfolio. Asset allocation decisions account for nearly 92 percent of the variation between returns on different portfolios and are often considered to be the most important driver of investment performance. Portfolio assets are diversified to help offset declines in any one class, smooth out marketplace ups and downs, and reduce overall investment risk.

The WSIB invests in six broad-based asset classes: public equity, fixed income, private equity, real estate, tangible assets, and cash. Each fund managed by the Board is assigned a strategic asset allocation, which includes the asset classes used by that fund, long-term policy targets for those asset classes, and the acceptable ranges within which those targets can vary. The WSIB formally reviews the strategic asset allocations at least every four years.

Retirement Funds

To more efficiently manage investments, reduce administrative costs, and minimize investment fees, the defined benefit retirement fund assets are pooled into the CTF. Over the past year, the fund has grown from $93.3 billion to $101.6 billion including employer and employee contributions, plus net investment returns, less benefit payments and fund transfers (this does not include Plan 3 self-directed defined contribution funds). The market value stated in the audited financials for the retirement fund is significantly different than the market value that is reported through the custodian bank for the same time period. There has always been a discrepancy, but as the market value of the retirement fund continues to grow in size, so does the difference. This is due to updated year end alternative asset valuations that are received after the unit price for the CTF is published. The retirement funds' audited financials are issued approximately 3 months after that price is established. Accordingly, the values in the audited financials can vary from the prices used to value the CTF as both have different pricing policies.

The WSIB measures fund performance by comparing the performance of investment returns of each asset class in the CTF to appropriate benchmarks. Although quarterly and yearly returns change, long-term realizations should meet or exceed the 7.8 percent actuarially assumed rate of return.

It is important to remember that individual asset classes differ in their behavior and volatility from one year to the next. The fair value of most public market investments can be determined and priced instantly. However, real estate and private equity investments are very illiquid and not easily priced, so it may take years before expected returns are apparent and realized.

Fixed Income

The main sectors of the fixed income portfolio are U.S. government bonds, credit, and securitized. The fixed income program for the CTF is actively managed by WSIB staff against a performance benchmark of the Bloomberg Barclays U.S. Universal Credit Index.

The yield on the 10-year treasury increased, starting the fiscal year at 2.30 percent, increasing to 2.41 percent by the end of calendar 2017, and then moving up and down before finishing at 2.85 percent on June 29, 2018. The yield was at a low of 2.06 percent in early September 2017 and a high of 3.11 percent in mid-May 2018.

Highlights

- The portfolio outperformed the Barclays U.S. Universal Credit Index for the fiscal year, returning 0.02 percent versus -0.28 percent for the index. Within the portfolio, credit bonds were over-weighted, U.S. government bonds were slightly underweighted and securitized bonds were underweighted.
- Transactions totaled $8.5 billion in purchases and $2.3 billion in sales.
- During the fiscal year, $4.9 billion in cash was transferred into fixed income from other asset classes.

Tangible Assets

The tangible asset portfolio invests in physical assets that are used in the production or supply of goods and services. The portfolio focuses on upstream and midstream segments in four main industries: minerals and mining, energy, agriculture, and society essentials. Each has a different return attribute which provides diversification benefits to the overall CTF portfolio.

The externally managed partnerships are expected to generate returns, on whole, higher than fixed income but lower than equities. It is anticipated that the assets will have a large portion of the return attributed to distributed income generated by the assets with the remainder due to capital appreciation commensurate with inflation.

Tangible assets were established as a separate asset class in 2007 and implemented in 2008. Over time, we expect to create a well-diversified, global tangible asset portfolio with a variety of partners spread among the target sectors noted above, each with their own level of investment risks, style, and geographic diversification.

Highlights

- The Board approved investments in four funds totaling $1.25 billion during FY 2018 with the ability to co-invest an additional $200 million alongside 2 partners.
- $1.3 billion of committed capital was drawn during the fiscal year.
- $625 million in distributions were returned to the WSIB.

Real Estate

The WSIB's real estate program focuses primarily on creating a high-quality, long-term, stable income stream for the CTF. Investments target risk-adjusted returns consistent with our long-term expectations for the asset class. The majority of these externally-managed partnerships invest in properties leased to third-parties. The steady income from lease payments, combined with the potential for appreciation, generate returns that are expected to fall between the performance for fixed income and equities over the long-term.

In most cases, the WSIB and its local partners are the only financial investors in a partnership. This provides the WSIB with excellent governance provisions related to acquisition, disposition, and annual business planning processes. The majority of our partners own real estate assets as private market investments and, as a result, better reflect the actual attributes of real estate investing rather than the potential volatility of public markets. Capital is widely diversified among a variety of partners, each with its own investment style, and real estate assets are geographically diversified, including outside the U.S. Investments are made in a variety of property types to provide further diversification. Finally, diversification is enhanced by our partners investing at different points in the real estate capital structure and at different times in the property life cycle. These varying kinds of diversification provide a degree of stability within a cyclical investment class.

The portfolio continues to produce steady income yields—the primary goal of the program. The importance of having a long-term investment horizon is evident in the attractive returns for the real estate portfolio over long periods. The strongest drivers of our successful long-term returns are the WSIB's investments in real estate operating companies (REOCs), diversification by market and property type, and an emphasis on high-quality micro-locations in major markets.

Highlights

- The 10-year return for the WSIB's real estate portfolio was 6.55 percent versus the WSIB's return benchmark for real estate of 8.00 percent over a rolling 10-year period. The portfolio's 5-year return was 12.52 percent, and the 20-year return was 10.71 percent.
- Over the past year, the real estate portfolio's return was 14.84 percent, compared to the NCREIF Index's return of 7.12 percent.

Public Equity

Because U.S. equity markets are generally efficient and international equity markets are increasingly efficient, most of the WSIB's public equity portfolio is invested in low-cost, broad-based passive index funds. The portfolio employs both passive U.S. equity and passive international (developed and emerging) equity in order to maintain policy weights in each area. Global equity mandates, in which investment firms can pick the most attractive stocks wherever they are domiciled in the world (U.S. or international), and emerging markets equity mandates are primarily actively managed.

The public equity program uses a global benchmark, the Morgan Stanley Capital International ("MSCI") All Country World with USA Gross Investable Market Index, reflecting the globalization of capital markets. In a world where American companies like Coca-Cola get most of their revenue from overseas and many foreign companies serve mainly the U.S., distinctions between "U.S. stocks" and "international stocks" have become increasingly blurred. The WSIB believes the future success of the program depends on investment managers finding the most attractive opportunities wherever they are in the world.

Following very strong positive returns in the prior fiscal year, in FY 2018, equity markets again posted double-digit positive gains with global equity markets returning 11.47 percent, compared to 19.39 percent and -3.54 percent rises in the two previous fiscal years. The U.S. equity markets had significant gains and outperformed non-U.S. developed and emerging markets, returning 14.93 percent over the year. Emerging markets posted a 7.90 percent return after the prior fiscal year returns exceeding those of the U.S. and Non-U.S. markets. Non-U.S. developed markets performance was in-line with that of emerging markets with a 7.74 percent return. The strength in the U.S. dollar presented a significant headwind for non-U.S. and emerging markets equity, which was not the case in the prior fiscal year. Non-U.S. developed markets and emerging markets remain at more attractive valuation levels following this fiscal year's performance. Around the world, continued though modest growth and accommodative monetary policies contributed to a favorable environment for equity returns.

That said, the global macro-economic environment continues to deal with many concerns including macro-economic, political, and policy uncertainty in many major countries and high valuation levels for the U.S. equity market. There is no consensus on whether equity market returns will be positive or negative in the short term, and staff expects continued volatility in the near term.

Overall, the public equity program is structured to protect capital in periods of negative returns and keep pace during period of positive returns. It is not unexpected that in a year in which global equity markets returned nearly 11.5 percent, as experienced in FY 2018, the public equity portfolio would stay close to that return but not outperform. In this period the overall public equity portfolio posted an 11.42 percent return versus an 11.47 percent return for the benchmark, detracting -5 basis points of value added, net of all fees and expenses. Avoiding losses during down markets is an important aim of the public equity program, and the program has protected on the downside in past fiscal years. Long-term performance continues to be the focus, and the program has added value over longer periods. Staff continues to believe that a public equity program that modestly outperforms most years will deliver significant value added over the long term.

Highlights

- The U.S. equity program underperformed its benchmark by -32 basis points (bps) with a return of 14.61 percent versus the benchmark's 14.93 percent return. The developed international equity program lagged the index by -16 bps with the portfolio returning 7.58 percent while the benchmark had a 7.74 percent return.
- The active global equity program outperformed the benchmark by +252 bps. The global portfolio returned 13.98 percent versus the benchmark return of 11.47 percent. In this segment of the portfolio, staff believe that allowing skilled active management to choose the best stocks, wherever there are in the world, presents the best return opportunities long term. These active global managers were able to outperform in this strongly positive market and while this performance added value in this fiscal year, this segment is not expected to outperform in all strongly positive markets (as was the case in the previous fiscal year where these active global managers slightly underperformed during a period of very strong, positive returns). However, it is expected that they will provide protection during down markets as these portfolios aim to lose less value than the broad index during periods of negative market returns. In markets that surge ahead by 17-20 percent, the program is likely to stay close to the benchmark but not outperform.
- The emerging markets equity program underperformed its benchmark by -591 bps, returning 1.99 percent versus the benchmark return of 7.90 percent. This was the most significant underperformance in the public equity program. WSIB's investment managers employ a disciplined investment approach that includes attention to valuation levels. The most significant underweight in the program was to information technology stocks in China such as TenCent and Alibaba, all of which are significant weights in the benchmark and had very strong performance over the fiscal year.
- Overall, the public equity portfolio within the CTF is well structured and continued to deliver outperformance this past fiscal year

Private Equity

The objective of the private equity program continues to be to generate a significant premium above the returns of the public equity markets over the long term, by investing in a well-diversified portfolio of funds managed by a stable of high-quality general partners. The portfolio is being managed to a model portfolio to ensure adequate diversification by general partner, strategy type and geographic region.

As of June 30, 2018, the private equity portfolio was valued at $21.8 billion, or 21.4 percent of the CTF, compared with $19.5 billion and 20.9 percent at the previous fiscal year-end. The value increase from the prior year reflects that appreciation of portfolio investments more than offset the $1.1 billion of distributions received in excess of capital contributions during the period. The program has been strongly cash flow positive each year since 2011.

During the fiscal year, the WSIB closed on $6.9 billion of new commitments across 23 private equity funds, seven of which represented new general partner relationships. Capital drawn for investment was approximately $1.1 billion higher than in the previous year and distributions from portfolio company liquidations were very strong again this year, approximately $1.1 billion higher than distributions in the prior fiscal year.

Highlights

- $6.9 billion in new commitments to funds were closed during FY 2018 compared to $3.1 billion in FY 2017.
- $4.5 billion of capital was drawn for investment during the fiscal year compared to $3.4 billion in the prior year.
- $5.6 billion in distributions were returned to the CTF in FY 2018 compared to $4.5 billion distributed in FY 2017.

Innovation Portfolio

The innovation portfolio gives staff the ability to make strategic investments that fall outside the established asset class programs currently used by the Board. In addition, this portfolio provides the Board with comfort and demonstrated success before committing larger dollar amounts to new and innovative investment strategies.

Highlights

- A commitment to a distressed credit investment fund was approved for the Innovation Portfolio during the fiscal year.

OTHER FUNDS UNDER MANAGEMENT

Defined Contribution Retirement Funds

The WSIB oversees the investment options in Plan 3 (Teachers' Retirement System/School Employees' Retirement System/Public Employees' Retirement System), the Deferred Compensation Program (DCP), and the Judicial Retirement Account (JRA). However, these programs are accounted for and reported on by the Department of Retirement Systems (DRS). Therefore, performance information and the financial statements are provided by DRS.

PERS 3: $3.1 Billion

SERS 3: $2.0 Billion

TRS 3: $9.0 Billion

Deferred Compensation Program: $4.4 Billion

Judicial Retirement Account: $10.1 Million

Labor and Industries' Funds

$17.0 Billion

The WSIB manages Industrial Insurance funds on behalf of the Department of Labor and Industries (L&I). The L&I portfolio consists of four separate funds:

- The Accident Fund primarily pays disability benefits.
- The Medical Aid Fund pays for services required by injured workers and L&I administrative costs.
- The Pension Reserve Fund is maintained by transfers of money from the Accident Fund at the time that a new pensioner is setup.
- The Supplemental Pension Fund supplements time loss and compensates for cost-of-living increases.

Permanent Funds

$1.1 Billion

The permanent funds are non-expendable trusts. The principal for each fund remains intact and investment earnings, less expenses, are reinvested or distributed to a beneficiary fund. Five of these funds were established through federal government land grants to help Washington's schools and colleges with bond repayment, capital development, and facilities maintenance. The Department of Natural Resources transfers proceeds from the sale of land and timber to the WSIB for investment purposes. Fund proceeds are invested in fixed income, short-term holdings, and U.S. equity depending on each funds' policy regulations.

Guaranteed Education Tuition Fund

$2.1 Billion

The Guaranteed Education Tuition (GET) program allows individuals or groups to purchase state college and university tuition units for future use at current prices. Program administration is under the authority of the Advanced Tuition Payment Program Committee. The WSIB serves as trustee for the funds and invests them in a mix of short-term holdings, Treasury Inflation Protected Securities (TIPS), U.S. Equity, and International Equity.

Developmental Disabilities Endowment Trust Fund

$64.8 Million

The Developmental Disabilities Endowment Trust Fund (DDEF) supports individuals with developmental disabilities through private contributions and public appropriations. The WSIB invests the fund in a mix of short-term holdings, TIPS, fixed income, and U.S. equity.

Washington State Opportunity Scholarship Funds

$93.4 Million

This fund was created by the Washington State Legislature to encourage student participation in high employer-demand programs of study. The WSOS funds are comprised of two distinct pools of assets each comprised of private funds and state matching funds.

Daily Valued Funds

Bond Market Fund $1.7 Billion

The goal of this daily-valued fund is to provide attractive returns while controlling risk by investing in high-quality corporate bonds. The fund is internally managed by the WSIB and is intended for those who want an intermediate-term investment designed to match or moderately exceed the returns of the Barclays Capital Intermediate Credit Index.

Savings Pool $864 Million

The savings pool is intended as a conservative, short-term investment opportunity where the primary objective is to protect current income and preserve principal. The savings pool is a diversified portfolio of guaranteed investment contracts (GICs) and short-term cash funds.

TIPS $334 Million

TIPS are designed to provide protection against inflation as measured by the Consumer Price Index. The fund is actively managed to meet or exceed the return of the Barclays Capital U.S. Treasury Inflation Protected Securities Index.

FINANCIALS

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the basic financial statements and notes to the financial statements. The financial statements included are for the Retirement Funds, L&I Funds, Permanent Funds, GET, DDEF, WSOS, and Daily Valued Funds. The financial statements are reported separately due to the unique goals and objectives for each set of funds and each set of funds undergoes a separate financial statement audit.

Basic Financial Statements

The basic financial statements presented include the Statement of Net Investment Position, which reports the assets by general asset category and the related liabilities as of June 30, 2018, 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, 2018.

The financial statements and notes were prepared by the investment accounting unit of the WSIB.

Notes to the Financial Statements

The notes to the financial statements presented are an integral part of the financial statements and include additional information not readily evident in the financial statements themselves.

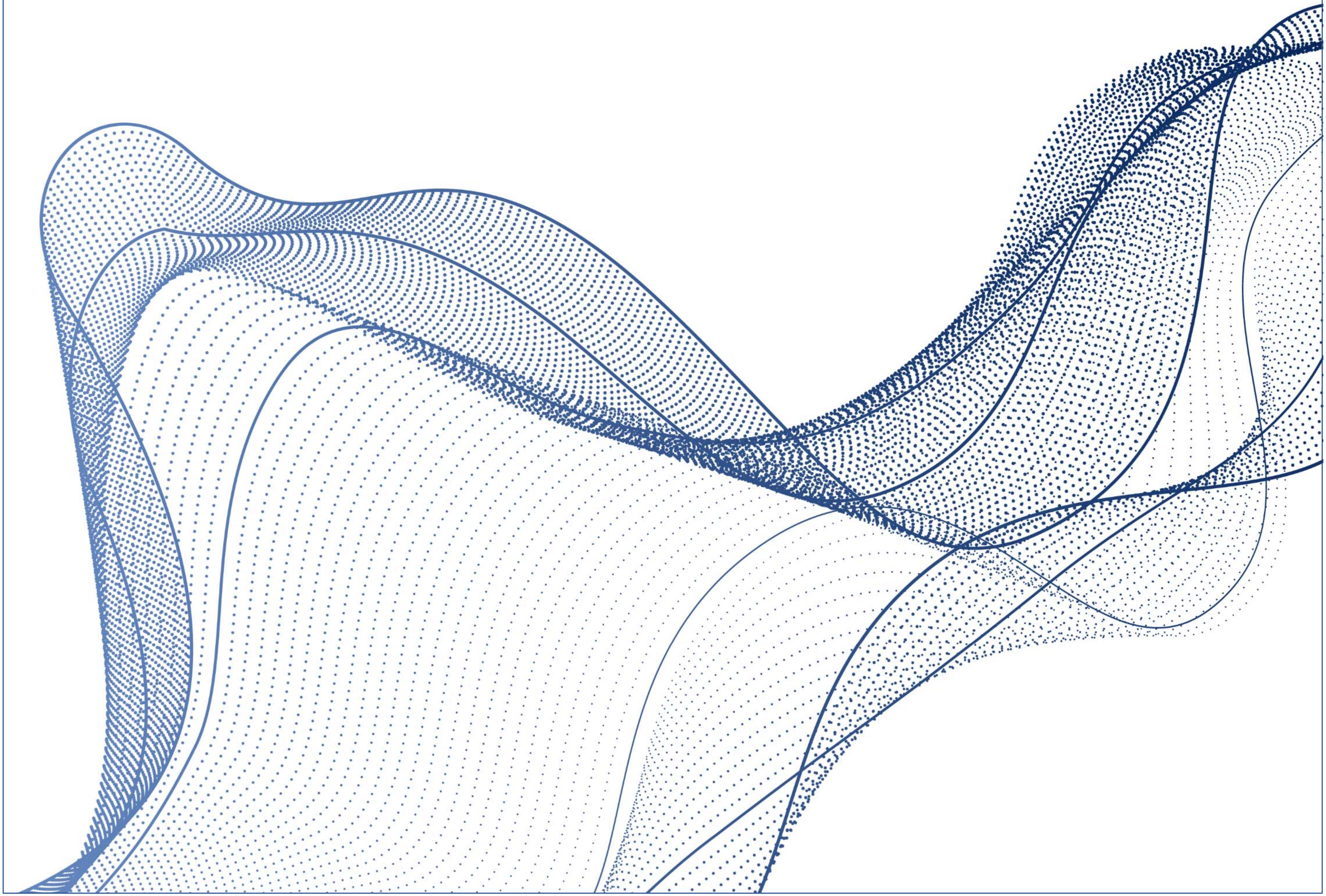
Contacting WSIB's Financial Management

This financial report is designed to provide a general overview of WSIB's investment activities.

If you have any questions about this report or need additional information, contact:
The Washington State Investment Board
2100 Evergreen Park Drive SW
PO Box 40916, Olympia, WA 98504-0916

Phone: 360-956-4600
Website: http://www.sib.wa.gov

RETIREMENT FUND



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Independent Auditor's Report

To the Members of the Washington State Investment Board
Olympia, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the Retirement Funds (which are comprised of the 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, 2018, 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 of America; 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.

Auditors' 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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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.

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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 investment position of the Retirement Funds as of June 30, 2018, and the changes in net investment position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 9 to the financial statements, total investments in the Commingled Trust Fund include investments valued at $43.4 billion (42.7% of total investments) as of June 30, 2018, 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 the general partners. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic 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 of America, 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2018 on our consideration of the Retirement Funds’ internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Retirement Funds’ internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Retirement Funds’ internal control over financial reporting and compliance.

Eide Bailly LLP

Boise, Idaho
September 24, 2018

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, assets, and liabilities of the Retirement Funds, as of June 30, 2018. 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, 2018. The following table compares the net investment position of each major investment classification at June 30, 2018, with those at June 30, 2017. In addition, they summarize the changes in each major investment classification for the fiscal year ended June 30, 2018 and 2017, as well as a comparison of investment performance, the results of financial operations, and other relevant information between the two reporting periods. 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.

As shown in the following table the net investment position of the Retirements Funds increased by $8,251.1 million during the fiscal year ended June 30, 2018. Net withdrawals from the Retirement Funds during the current fiscal year decreased net investment position by $608.9 million. Net investment income increased net investment position by $8,860.0 million and was reinvested in the various asset classes of the Retirement Funds.

Net investment income decreased by $2,700.0 million during the current fiscal year as compared to the prior year, mainly from large decreases in net realized and unrealized gains and losses. This was the result of overall decreased investment returns from the previous year. The current fiscal year return for the Retirement Funds was 10.2 percent compared to the prior fiscal year return of 13.4 percent. The alternative asset returns reflected in the total returns are lagged by one quarter as of March 31 of each year, which is standard practice due to availability of data within this asset class. The decrease in total returns was largely due to substantial decrease in investment returns in both the equity and debt security portfolios. The main driver of decreased investment returns from the prior fiscal year were rising interest rates within the overall fixed income markets and lower returns from the previous year in international equity markets.

Net withdrawals from the Retirement Funds decreased by $306.3 million from the previous fiscal year. During the current fiscal year, covered payroll (the base salary used to compute contributions) increased 6 percent from the previous year for the plans administered by the Department of Retirement Systems (DRS). Employee and employer contribution rates also increased in the current fiscal year. Accordingly, DRS had a significant increase in revenue during the current fiscal year due to higher contribution rates and covered payroll which reduced the need to liquidate investments to meet pension benefit payment requirements.

Transfers between asset classes are done periodically to fund withdrawal requests by the Retirement Funds and to rebalance the Commingled Trust Fund (CTF) portfolio to maintain strategic investment targets established by the WSIB. These transfers can vary significantly from year to year based on the cash needs of DRS and investment returns impacting the various asset classes.

RETIREMENT FUNDS

Investment related receivables and payables (which include open foreign exchange contracts), investments purchased and sold pending settlement over year end, and income receivables and expenses payable are reflected in each asset class's net investment position. These balances fluctuate from year to year based on invested balances or trading activity. Investment managers use spot and forward currency contracts in connection with the cash overlay program, as well as managing trade settlements in foreign markets. The balances in these open foreign exchange contracts fluctuate based on the trading needs of the managers, as well as the market exposure needed within the cash overlay program. Accordingly, these balances have little correlation to invested balances. Pending trade balances vary due to fluctuations in unsettled securities each year. 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 and can vary substantially from year to year. Investment income receivables and investment expenses payable generally fluctuate within each asset class based on the invested balances each year.

Summarized Change in Net Investment Position and Returns by Asset Class (in Millions)

	Fiscal Year End June 30, 2018					Fiscal Year End June 30, 2017					Year Over Year Change	
	Cash and Cash Equivalents	Debt Securities	Equity Securities	Alternative Assets	Total	Cash and Cash Equivalents	Debt Securities	Equity Securities	Alternative Assets	Total	Increase (Decrease)	Percent Change
Beginning Net Investment Position (*)	$ 1,457.9	$ 16,997.2	$ 35,546.5	$ 39,332.9	$ 93,334.5	$ 1,521.7	$ 17,990.5	$ 29,851.2	$ 33,326.3	$ 82,689.7	$ 10,644.8	12.9%
Investment Income:												
Interest, Dividends, and Other Investment Income	21.5	705.5	599.8	993.2	2,320.0	11.2	627.8	584.6	894.9	2,118.5	201.5	9.5%
Realized and Unrealized Gains (Losses)	13.8	(783.3)	3,348.5	4,487.0	7,066.0	232.1	(208.7)	5,140.2	4,670.4	9,834.0	(2,768.0)	-28.1%
Less: Investment Expenses	(19.6)	(4.6)	(74.9)	(426.9)	(526.0)	(16.8)	(2.4)	(67.2)	(306.1)	(392.5)	133.5	34.0%
Net Investment Income (Loss)	15.7	(82.4)	3,873.4	5,053.3	8,860.0	226.5	416.7	5,657.6	5,259.2	11,560.0	(2,700.0)	-23.4%
Net Amount Withdrawn	(608.9)	-	-	-	(608.9)	(915.2)	-	-	-	(915.2)	(306.3)	-33.5%
Transfers Between Asset Classes	749.6	4,900.0	(4,730.4)	(919.2)	-	624.9	(1,410.0)	37.7	747.4	-	NA	NA
Ending Net Investment Position (*)	**$ 1,614.3**	**$ 21,814.8**	**$ 34,689.5**	**$ 43,467.0**	**$ 101,585.6**	**$ 1,457.9**	**$ 16,997.2**	**$ 35,546.5**	**$ 39,332.9**	**$ 93,334.5**	**$ 8,251.1**	**8.8%**

	Cash and Cash Equivalents	Debt Securities	Equity Securities	Alternative Assets	Total
Increase (Decrease) in Net Investment Position	**$ 156.4**	**$ 4,817.6**	**$ (857.0)**	**$ 4,134.1**	**$ 8,251.1**
Percentage Change in Net Investment Position	**10.7%**	**28.3%**	**-2.4%**	**10.5%**	**8.8%**

	Cash and Cash Equivalents	Debt Securities	Equity Securities	Alternative Assets	Total
One Year Time Weighted Return - June 30, 2018	**1.3%**	**0.0%**	**11.4%**	**14.7%**	**10.2%**
One Year Time Weighted Return - June 30, 2017	**0.7%**	**2.4%**	**19.0%**	**13.9%**	**13.4%**

Debt and equity securities Include cash balances used for trading purposes
Cash and Cash Equivalents Includes cash balances used for liquidity purposes and cash overlay futures and forwards exposure in equity and debt securities
Alternative asset returns are lagged by one quarter and cover the one year period ended March 31st. Overall return includes this lagged valuation
(*) Net investment position includes accrued income, accrued expenses, and pending trades within each asset class

The following summarizes the changes in net investment position for each main investment category in the previous table:

- ***Cash and cash equivalents*** include cash held for overall liquidity purposes in order to fund withdrawal requests by DRS, fund capital calls in the alternative asset portfolio, and asset class rebalancing to strategic targets. Cash balances used for trading in the debt and equity portfolios are excluded from cash and cash equivalents in the previous table. In addition, cash balances include the investments and activity of the cash overlay program within the CTF. This program equitizes cash balances by investing in futures and forward contracts in the underweight asset class within the debt and equity portfolio. The cash overlay program is prohibited from using leverage to achieve desired results.

The net investment position of the cash and cash equivalents portfolio increased by $156.4 million. These balances fluctuate within policy ranges of 0.0 to 3.0 percent of the total CTF portfolio as asset allocation decisions are made based on the cash needs of DRS and invested balances in relationship to strategic targets.

Cash returns for the one year period ended June 30, 2018, net of the returns in the overlay program were 1.3 percent. The substantial increase over the prior year return of 60 basis points increased interest income by $10.3 million as compared to the prior fiscal year. Short-term interest rates have risen over the past fiscal year as a result of Federal Reserve actions. The Federal Reserve has increased the target range for the federal funds rate three times during the current fiscal year for a total of 75 basis points.

Net realized and unrealized gains within the cash portfolio reflect the activity in the cash overlay program. The cash overlay program had a zero return in the current fiscal year, as compared to the prior year return of 23 basis points. The substantial decrease in returns resulted in a decrease of $218.3 million in net realized and unrealized gains within the cash portfolio. At the beginning of the fiscal year, the program was invested fairly even in both equity and fixed income futures and TBA securities. During the latter part of 2018, the emphasis shifted to fixed income futures as the declining fixed income balances resulted in a shift in the overlay program to this underweight asset class. The size of the overlay exposure varies in response to the amount of cash the CTF holds. During the fiscal year 2018, the average exposure was 1.5 percent, with a range of 1.1 to 2.3 percent. The global equity market returned 11.4 percent as measured by the Morgan Stanley Capital International All Country World Investable Market Index (MSCI ACWI) and the fixed income market returned (0.3) percent as measured by the U.S. Bloomberg/Barclays Universal Index for the year ending June 30, 2018. As the overlay program is rebalanced to exposure in a single market to maintain appropriate policy targets (equity versus fixed income), the strong equity performance had a positive impact on the CTF, while the weaker fixed income market had a negative impact on the CTF for the fiscal year ending June 30, 2018.

- ***Debt securities*** net investment position increased by $4,817.6 million. Interest income net of investment expenses of $700.9 million was reinvested to debt securities during the current fiscal year. Net realized and unrealized losses decreased balances in this asset class by $783.3 million. Asset allocation rebalancing was done during the year and transfer of sale proceeds were made to debt securities, mainly from the equity and cash portfolios. This increased fixed income balances by $4,900.0 million. The net investment position and performance of debt securities includes $485.3 million of cash balances used for trading purposes.

  The average coupon rate at June 30, 2018, was 3.4 percent for the current fiscal year compared to the prior year rate of 3.7 percent. Despite a decrease in the average coupon rate over the previous fiscal year, interest income on fixed income securities increased by $77.7 million due to the increase in the average invested balance within the debt portfolio. The average balances in fixed income securities increased due to transfers from other asset classes to rebalance the CTF portfolio and maintain strategic allocation investment targets.

  Performance for the retirement fixed income portfolio was slightly positive for the year at 2 basis points, outperforming the benchmark return, the Bloomberg Barclays Capital Universal Bond Index of (.3) percent. The outperformance was due to earning a higher income return from its higher allocation to credit bonds than the benchmark. The portfolio also benefitted from an overweight to shorter maturity bonds, resulting in less negative price return due to the upward movement of interest rates. The returns decreased substantially and resulted in a decrease of net realized and unrealized gains and losses of $574.6 million over the prior fiscal year. The decrease in investment returns was the result of a rising interest rate environment during the fiscal year end June 30, 2018. Generally, higher yields on debt securities translated to lower bond prices and decreased returns.

In the U.S., the Federal Reserve hiked interest rates three times over the last 12 months in response to the solid rate of growth and improvements in the labor market. This led U.S. Treasury rates higher for the year with the shorter rates increasing significantly more than the longer dated rates. However, the improved economic outlook failed to further tighten credit spreads from already very low levels. Instead credit spreads widened for the year, with the majority of the widening occurring the last six months. The higher interest rates and wider credit spreads resulted in lower fixed income prices for both U.S. Treasuries and credit bonds. With the increase in rates more muted on the longer maturity bonds, the longer maturity segment of the market outperformed the intermediate maturity bonds. Short maturity bonds with their much lower price sensitivity to changes in interest rates also outperformed the intermediate maturity bonds. The extra income received from credit bonds was enough to offset the price decrease from wider credit spreads, resulting in credit bonds performing better than U.S. Treasuries with similar maturity for the year.

- ***Equity securities*** net investment position decreased by $857.0 million from the prior fiscal year. Dividend income net of investment expenses of $524.9 million was reinvested to equity securities during the current fiscal year. Net realized and unrealized gains increased balances in this asset class by $3,348.5 million. The remaining decrease resulted from the sale of equity securities and transfers made to other asset classes to maintain asset allocation targets. The net investment position and performance of equity securities includes $595.2 million of cash balances used for trading purposes.

The equity portfolio returned 11.4 percent during the current year, which was a substantial decrease over the prior year return of 19.0 percent. This decrease in returns resulted in a decrease of net realized and unrealized gains of $1,791.7 million from the prior fiscal year.

The global equity market returns experienced during the fiscal year end 2018 remained strong, but were noticeably below those of fiscal year 2017. The Retirement Fund equity portfolio is managed with a mixture of active and passive management and has a global focus. The benchmark for the equity portfolio is the Morgan Stanley Capital International All Country World Investable Market Index (MSCI ACWI IMI). Overall, the U.S. equity market returned 15.0 percent and the Non-U.S. markets returned 7.8 percent as measured by MSCI indices, which are broad barometers of overall market returns. The prior year index return for the U.S. and Non-U.S. markets were 18.4 percent and 20.4 percent, respectively which demonstrates noticeable declines in each. The U.S. market performance exceeded that of the Non-U.S. markets in the current fiscal year. Also, U.S. small cap stocks generally outperformed large cap stocks, as well as the broader market.

The global economy continued to grow at a brisk pace over the last year. U.S. unemployment rate hit lows not seen since the 1960s, and higher commodity prices had an overall positive effect on emerging market countries. The strength of the economic growth was offset by an increase in geopolitical risk with heightened tension with North Korea and an escalation of the potential for a trade war between the U.S. and China centered on the use of tariffs. In Europe the growth showed signs of slowing down over the last six months on the heels of a stalemate in the UK Brexit negotiations as well as Italy’s difficulty in forming a government following the election. Other factors influencing the global equity returns during the fiscal year 2018 include the recent U.S. tax cuts, the strong returns from the previous fiscal year (where the returns in the following year are typically lower), and the strong performance of U.S. information technology stocks during this period.

- ***Alternative investments*** net investment position increased by $4,134.1 million. Ordinary income distributions net of investment expenses increased this asset class by $566.3 million. Net realized and unrealized gains increased balances in this asset class by $4,487.0 million. During the current fiscal year, alternative asset managers called capital and expenses of $8,605.0 million and made distributions of cash, stock, and returns of capital of $9,524.2 million. This resulted in excess cash transferred and reinvested in other asset classes of $919.2 million.

  Ordinary income net of investment expenses decreased by $22.4 million over the previous fiscal year. While ordinary income distributions increased net investment income, expenses also increased which resulted in the overall year over year decline. The alternative asset portfolio returned 14.7 percent in the current year which was a slight increase over the prior year return of 13.9 percent. The increased returns were the result of the substantial increase in returns in the real estate portfolio. Both private equity and tangible asset portfolio returns, while positive, decreased from the prior year which resulted in a decrease in net realized and unrealized gains of $183.4 million.

  Returns for each major asset class within alternative investments are reflected in the following table:

Alternative Investment Returns *	FY 2018	FY 2017
Private Equity	16.7%	16.8%
Real Assets	14.8%	10.1%
Tangible Assets	4.3%	16.3%
Total Alternative Asset Return	**14.7%**	**13.9%**

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

  Appreciation of the private equity portfolio’s value reflects continued strength in equity markets, both public and private. Purchase price multiples for new investments are at or near cyclical highs, but investment activity has remained brisk, reflecting a significant overhang of uninvested private capital and continued accommodative credit markets. Private equity fundraising remained very active during the fiscal year as demand for many private equity funds significantly exceeded capacity.

  Real asset returns for the fiscal year were driven primary by the performance of industrial property, and secondarily by apartments, in both the U.S. and Europe. Continued high demand from investors for nearly all types of real estate has resulted in steadily rising prices for property in most world markets. Tenant demand also remains positive in most areas, particularly for buildings used by businesses for the distribution of goods.

  The positive tangible asset return was driven by three main themes, first better than expected realizations of large assets, second operational improvements, and third the continued improvement in the energy market. During fiscal year 2017, midstream oil and gas assets had a robust recovery which positively impacted the prior year returns.

As shown in the following table, securities on loan increased by $508.4 million and collateral held under securities lending agreements increased accordingly. As a result of regulatory changes in the industry, non-cash collateral lending continued to be in high demand as broker and borrowers were driven by increased capital efficiencies and cheaper financing trades. The global markets volatility caused by ongoing geopolitical concerns has led to demand in safer sovereign bond investments, however equities trading in specific sectors and countries remain in focus. The increase in loan balances over the fiscal year were led by robust U.S. Government lending in the debt portfolio which held a large number of current U.S. Treasuries under seven years to maturity. Market driven activity has had limited impact on U.S. and Non-U.S. Equity balances with the demand to borrow driven by specific names held in the portfolios.

In Millions:	**June 30, 2018**	**June 30, 2017**	**Increase (Decrease)**	**Percentage Change**
Securities on Loan Fiscal Year End	$ 2,355.8	$ 1,847.4	$ 508.4	27.5%
Cash Collateral Held Under Securities Lending Agreements	662.8	713.0	(50.2)	
Non-Cash Collateral Held Under Securities Lending Agreements	1,741.1	1,187.2	553.9	
Total Collateral Held	**$ 2,403.9**	**$ 1,900.2**	**$ 503.7**	**26.5%**

The fair value of the Retirement Funds' assets is directly impacted by the returns of the various capital markets which the WSIB invests in. 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 makes the asset allocation decisions for the Retirement Funds based on recommendations from its staff and other investment experts. The Retirement Funds' assets are rebalanced by the WSIB across asset classes, as appropriate, when fair values of assets fall outside policy ranges.

Retirement Funds Statement of Net Investment Position - June 30, 2018
See notes to financial statements

	Commingled Trust Fund	Plan-Specific Investments	Total	Percent of Plan Assets
ASSETS				
Investments:				
CASH AND CASH EQUIVALENTS	$ 2,476,627,051	$ 208,991,533	$ 2,685,618,584	2.6%
DEBT SECURITIES				
Mortgage and Other Asset Backed Securities	1,688,863,343	-	1,688,863,343	
Corporate Bonds	10,970,888,668	-	10,970,888,668	
U.S. Government and Agency Securities	7,010,089,666	-	7,010,089,666	
Foreign Government and Agency Securities	1,898,496,169	-	1,898,496,169	
Total Debt Securities	21,568,337,846	-	21,568,337,846	21.2%
EQUITY SECURITIES				
Common and Preferred Stock	20,482,664,484	-	20,482,664,484	
Commingled Equity Trusts and Mutual Funds	12,481,532,023	-	12,481,532,023	
Real Estate Investment Trusts	394,519,764	-	394,519,764	
Depository Receipts and Other Miscellaneous	650,415,139	-	650,415,139	
Total Equity Securities	34,009,131,410	-	34,009,131,410	33.5%
ALTERNATIVE INVESTMENTS				
Private Equity	21,785,133,595	-	21,785,133,595	
Real Estate	17,212,473,156	-	17,212,473,156	
Tangible Assets	4,389,298,431	-	4,389,298,431	
Total Alternative Investments	43,386,905,182	-	43,386,905,182	42.7%
Total Investments	101,441,001,489	208,991,533	101,649,993,022	100.0%
Collateral Held Under Securities Lending Agreements	662,844,331	-	662,844,331	
Investment Earnings Receivable	302,683,525	616,801	303,300,326	
Receivables for Investments Sold	281,332,580	-	281,332,580	
Open Foreign Exchange Contracts Receivable	2,026,131,763	-	2,026,131,763	
Total Assets	104,713,993,688	209,608,334	104,923,602,022	
LIABILITIES				
Obligations Under Securities Lending Agreements	662,844,331	-	662,844,331	
Investment Management Fees Payable	16,898,817	22,984	16,921,801	
Payable for Investments Purchased	637,308,208	-	637,308,208	
Open Foreign Exchange Contracts Payable	2,021,037,234	-	2,021,037,234	
Total Liabilities	3,338,088,590	22,984	3,338,111,574	
NET INVESTMENT POSITION	$ 101,375,905,098	$ 209,585,350	$ 101,585,490,448	

Retirement Funds Statement of Changes in Net Investment Position - Year Ended June 30, 2018

See notes to financial statements

	Commingled Trust Fund	Plan-Specific Investments	Total
Net Investment Income			
Investment Income:			
Interest, Dividends, and Other Investment Income	$ 2,314,508,655	$ 5,536,289	$ 2,320,044,944
Net Realized Capital Gains	5,783,416,504	-	5,783,416,504
Unrealized Gains	1,282,502,390	-	1,282,502,390
Less:			
Investment Expenses	(507,800,606)	(286,390)	(508,086,996)
WSIB Operating Expenses	(17,901,373)	(11,613)	(17,912,986)
Net Investment Income	8,854,725,570	5,238,286	8,859,963,856
Net Withdrawal by Retirement Plans	-	(608,885,812)	(608,885,812)
Investments in Commingled Funds	838,627,889	(838,627,889)	-
Withdrawals from Commingled Funds	(1,476,459,837)	1,476,459,837	-
Increase in Net Investment Position	8,216,893,622	34,184,422	8,251,078,044
NET INVESTMENT POSITION, JUNE 30, 2017	93,159,011,476	175,400,928	93,334,412,404
NET INVESTMENT POSITION, JUNE 30, 2018	$ 101,375,905,098	$ 209,585,350	$ 101,585,490,448

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 Washington State Investment Board (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 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.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments which include foreign currencies and short-term investment funds. The short-term investment funds are valued at cost. Accordingly, these investments are excluded from the fair value schedule in Note 9 to the basic financial statements.

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. See Note 9 for additional information.

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. Securities lending income for the fiscal year ended June 30, 2018, was $19.3 million and expenses associated with securities lending were $12.2 million.

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 U.S., requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

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

The CTF is a diversified pool of investments which is used as an investment vehicle for 15 separate retirement plans. 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 and Plan-Specific Investments consist of the Public Employees’ Retirement System (PERS) Plans 1, 2, and 3; Teachers’ Retirement System (TRS) Plans 1, 2, and 3; School Employees’ Retirement System (SERS) Plans 2 and 3; Law Enforcement Officers’ and Firefighters’ (LEOFF) Plans 1, 2, and the Benefits Improvement Fund; 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 for these invested balances lies with the DRS.

Note 3. Breakdown of Plan Assets

The Schedule of Participation presents the net investment position broken down by ownership by the various pension plans. The term “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	$ -	$ 73,630,285	$ 73,630,285	0.1%
LEOFF 1	5,900,794,905	1,303,768	5,902,098,673	5.8%
LEOFF 2	12,958,674,238	10,353,906	12,969,028,144	12.8%
PERS 1	7,628,560,272	4,243,387	7,632,803,659	7.5%
PERS 2/3 (DC and DB Plans)	40,479,864,821	34,382,382	40,514,247,203	39.9%
PUBLIC SAFETY EMPLOYEES 2	595,095,270	4,407,252	599,502,522	0.6%
SCHOOL EMPLOYEES 2/3 (DC and DB Plans)	6,938,544,095	15,487,961	6,954,032,056	6.8%
STATE PATROL 1	1,215,795,799	714,659	1,216,510,458	1.2%
STATE PATROL 2	70,547,667	1,002,598	71,550,265	0.1%
TEACHERS 1	5,766,248,882	8,498,063	5,774,746,945	5.7%
TEACHERS 2/3 (DC and DB Plans)	19,577,104,198	55,560,705	19,632,664,903	19.3%
VOLUNTEER FIREFIGHTERS	224,431,685	384	224,432,069	0.2%
LEOFF RETIREMENT BENEFIT IMPROVEMENT	20,243,266	-	20,243,266	TRACE
Total Net Investment Position at June 30, 2018	**$ 101,375,905,098**	**$ 209,585,350**	**$ 101,585,490,448**	**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. The 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 Expense

	Fees Paid	Netted Fees *	Total Fees	Net Assets Under Management
EQUITY SECURITIES:				
Public Equity Active Management	$ 59,965,451	$ 342,474	$ 60,307,925	$ 15,922,112,209
Public Equity Passive Management	2,947,279	1,182,515	4,129,794	18,767,341,384
ALTERNATIVE INVESTMENTS:				
Private Equity	269,114,716	65,000,000	334,114,716	21,854,897,680
Real Estate	85,516,923	14,500,000	100,016,923	17,215,981,407
Tangible Assets	70,630,129	12,600,000	83,230,129	4,395,994,741
CASH MANAGEMENT	3,227,439	-	3,227,439	1,614,316,252
DEBT SECURITIES	-	-	-	21,814,846,775
OTHER FEES:				
Consultants and Accounting	1,019,669	-	1,019,669	NA
Legal Fees	1,156,021	-	1,156,021	NA
Research Services	2,192,933	-	2,192,933	NA
Securities Lending Rebates and Fees	12,164,934	-	12,164,934	NA
Miscellaneous Fees	151,502	-	151,502	NA
	$ 508,086,996	$ 93,624,989	$ 601,711,985	$ 101,585,490,448

** Netted fees are included in unrealized gains (losses) in the accompanying financial statements. Alternative asset adjustments are estimated from available information provided from general partners for the one year period ended March 31st.*

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, 2018, the Retirement Funds had a total of $27.7 billion in unfunded commitments in the following asset classes (in millions):

Private Equity	$ 15,919.2
Real Estate	8,281.7
Tangibles	3,460.3
Total	$ 27,661.2

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, 2018, 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 fixed income investments. The Retirement Funds' fixed income investments are to be actively managed to meet or exceed the return of the Bloomberg Barclays U.S. 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, 2018, the Retirement Funds' duration was within the duration target of this index.

Schedules 1 and 2 provide information about the interest rate risks associated with the Retirement Funds' investments, as of June 30, 2018. 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, 2018, 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, 2018.

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, real estate, and tangible assets 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. In addition, the CTF has a maximum foreign currency exposure at June 30, 2018, of $1.2 billion invested in two emerging markets commingled equity investment trust funds.

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 (SSC) 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, 2018, was approximately $2,355.8 million. The securities on loan remain in the Statement of Net Investment Position in their respective categories. At June 30, 2018, cash collateral received totaling $662.8 million is reported as a securities lending obligation, and the fair value of the reinvested cash collateral totaling $662.8 million 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, 2018, was $1,741.1 million.

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, 2018.

In Millions	Cash Collateral	Non-Cash Collateral	Total
Mortgage Backed Securities	$ -	$ 1,425.6	$ 1,425.6
Repurchase Agreements	155.6	-	155.6
Yankee CD	223.3	-	223.3
Commercial Paper	195.7	-	195.7
U.S. Treasuries	-	315.5	315.5
Cash Equivalents and Other	88.2	-	88.2
Total Collateral Held	**$ 662.8**	**$ 1,741.1**	**$ 2,403.9**

During Fiscal Year 2018, securities lending transactions could be terminated on demand by either the Retirement Funds or the borrower. As of June 30, 2018, the cash collateral held had an average duration of 16.17 days and an average weighted final maturity of 78.97 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 2018, there were no significant violations of legal or contractual provisions, no failures by any borrowers to return loaned securities or to pay distributions thereon. During Fiscal year 2018, the Retirement Funds incurred no losses resulting from a default by either the borrowers or the securities lending agents.

Note 9. Fair Value

GASB Statement No. 72, Fair Value Measurement and Application, (Statement 72) specifies a hierarchy of valuation classifications based on whether the inputs to the valuation techniques used in each valuation classification are observable or unobservable. These classifications are summarized in three broad levels listed below:

- Level 1 – Unadjusted quoted prices for identical instruments in active markets.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly, including quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the assets or liabilities (such as exchange rates, financing terms, interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks, and default rates).
- Level 3 – Valuations derived from valuation techniques in which significant inputs or significant value drivers are unobservable.

Inputs used to measure the fair value might fall in different levels of the fair value hierarchy. The Retirement Funds measure fair value using the lowest level input that is significant to the fair value measurement of each investment with Level 3 being the lowest level. The determination of fair value of an investment is not necessarily an indication of the risk or liquidity associated with the investments. In determining the appropriate levels, the Retirement Funds performed a detailed analysis of the assets and liabilities that are subject to Statement 72. Valuation policies and procedures are managed by the Investment and Financial Services unit which regularly monitors fair value measurements. Fair value measurements are prepared and reviewed monthly, and any third party valuations are reviewed for reasonableness and compliance with relevant accounting standards.

The Retirement Funds receive fair value prices for publicly traded securities directly from their custodian bank. These prices are obtained from reputable pricing sources which include but are not limited to Thomson Reuters, Bloomberg, and Interactive Data Corporation. The custodian bank performs the following tolerance and review checks on the pricing data on a daily basis:

Publicly Traded Equity

- Comparison of primary pricing sources to a secondary source with a zero tolerance threshold.
- Researches price changes from the previous day of ten percent or greater with verification to secondary sources.
- Researches price changes from the previous day in excess of 20 percent by reviewing market related company news and corporate actions.
- Prices unchanged in excess of five days requires verification there is no market status change.

Fixed Income

- Researches price changes from the previous day of 2 to 5 percent or greater with corroborating evidence required from the primary pricing vendor.
- Prices unchanged in excess of ten days are sent to the appropriate vendor for review and verification.

The Retirement Funds receive fair value measurements for alternative assets from a third party provider who collates data received from the general partners and other sources and prepares monthly valuation reports. WSIB staff review these reports monthly and verify the information to the appropriate source.

The Retirement Funds invest in Collective Investment Trusts operated by a bank or trust company and groups assets contributed into a commingled investment fund. These "mutual fund" type investments are not available to the general public and are open-ended funds which issues or reduces shares for purchases and redemptions. The commingled fund manager determines a daily price per unit of the collective trust by obtaining fair values of the underlying holdings using reputable pricing sources and computing an overall net asset value per share.

The following table presents fair value measurements as of June 30, 2018:

		Fair Value Measurements Using:		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
INVESTMENTS				
DEBT SECURITIES				
Mortgage and Other Asset Backed Securities	$ 1,688,863,343	$ -	$ 1,688,863,343	$ -
Corporate Bonds	10,970,888,668	-	10,970,888,668	-
U.S. and Foreign Government and Agency Securities	8,908,585,835	-	8,908,585,835	-
Total Debt Securities	21,568,337,846	-	21,568,337,846	-
EQUITY SECURITIES				
Common and Preferred Stock	20,482,664,484	20,436,675,232	43,314,578	2,674,674
Depository Receipts and Other Miscellaneous	650,415,139	629,423,138	20,992,001	-
Mutual Funds and Exchange Traded Funds	2,488,244	2,488,244	-	-
Real Estate Investment Trusts	394,519,764	394,518,555	1,209	-
Private Equity and Tangible Asset Funds	165,763,669	165,763,669	-	-
Total Equity Securities	21,695,851,300	21,628,868,838	64,307,788	2,674,674
Total Investments By Fair Value Level	43,264,189,146	21,628,868,838	21,632,645,634	2,674,674
INVESTMENTS MEASURED AT NET ASSET VALUE				
Private Equity	21,766,982,961			
Real Estate	17,212,473,156			
Tangible Assets	4,241,685,396			
Collective Investment Trust Funds (Equity Securities)	12,479,043,779			
Total Investments at Net Asset Value	55,700,185,292			
Total Investments Measured at Fair Value	$ 98,964,374,438			
OTHER ASSETS (LIABILITIES) AT FAIR VALUE				
Collateral Held Under Securities Lending Agreements	$ 662,844,331	$ -	$ 662,844,331	$ -
Net Foreign Exchange Contracts Receivable - Forward and Spot	5,094,531	-	5,094,531	-
Net Swap Contracts	(204,710)	-	(204,710)	-
Margin Variation Receivable - Futures Contracts	3,246,326	3,246,326	-	-
Obligations Under Securities Lending Agreements	(662,844,331)	-	(662,844,331)	-
Total Other Assets (Liabilities) Measured at Fair Value	$ 8,136,147	$ 3,246,326	$ 4,889,821	$ -

Debt and Equity Securities (Levels 1, 2, and 3)

Investments classified as Level 1 in the above table were exchange traded equity securities where values are based on published market prices and quotations from national security exchanges as of the appropriate market close, as of each reporting period end.

Investments classified as Level 2 in the above table were primarily comprised of publicly traded debt securities and exchange traded stocks traded in inactive markets. Publicly traded debt securities are sourced from reputable pricing vendors, using models that are market-based measurements representing their good faith opinion as to the exit value of a debt security, in an orderly transaction under current market conditions. Such models take into account quoted prices, nominal yield spreads, benchmark yield curves, prepayment speeds, and other market corroborated inputs.

Investments classified as Level 3 in the above table were publicly traded equity securities that have non-current, or "stale" values and are included in the table at the last traded price. The stale pricing occurred due to trading suspensions, delisting from an active exchange, or lack of investor demand. The current market values of these securities are unknown.

Alternative Assets (Investments Measured at Net Asset Value)

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 using the net asset value per share (or its equivalent) of the Retirement Funds ownership interest in partners' capital. These values are based on the individual investee's capital account balance reported at fair value by the general partner, at the most recently available reporting period, adjusted for subsequent contributions, distributions, management fees, 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 approximately $43.4 billion (43 percent of total investments), as of June 30, 2018. Because of the inherent uncertainties in estimating fair values, it is possible that the estimates will change in the near-term or the subsequent sale of assets would be different than the June 30, 2018, reported net asset value.

With the exception of two publicly traded funds, these investments can never be redeemed. Instead, the nature of these investments provides for distributions from the sale/liquidation of the underlying assets of the fund and from net operating cash flows. It is anticipated that the various investments within each asset class will be liquidated over the following periods:

Liquidation Periods	Private Equity	Real Estate	Tangible Assets	Total	Percent of Total
Publicly Traded - Level 1	$ 18,150,634	$ -	$ 147,613,035	$ 165,763,669	0.4%
Less than 3 years	175,816,492	43,960,204	-	219,776,696	0.5%
3 to 9 years	4,760,064,841	1,179,590,057	354,934,725	6,294,589,623	14.5%
10 years and over	16,831,101,628	15,988,922,895	3,886,750,671	36,706,775,194	84.6%
Total	$ 21,785,133,595	$ 17,212,473,156	$ 4,389,298,431	$ 43,386,905,182	100.0%

Private Equity Limited Partnerships

This includes 267 private equity limited liability partnerships that invest primarily in the U.S., Europe, and Asia in leveraged buyouts, venture capital, distressed debt, and growth equity (see Note 12 to the basic financial statements for additional investment related strategies and policies).

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 unique 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 of comparable publicly traded companies.

Real Estate

This includes 27 real estate investments. Targeted investment structures within the real estate portfolio include real estate operating companies, limited liability companies, joint ventures, commingled funds, and co-investments (see Note 12 to the basic financial statements for additional investment related strategies and policies).

Real estate partnerships provide quarterly valuations based on the most recent capital account balance to the Retirement Fund management. Individual properties are valued by the investment management at least annually and are adjusted as frequently as quarterly if material market or operational changes have occurred. Properties are generally externally appraised every 1 to 5 years, depending upon the investment. 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.

Tangible Assets

This includes 42 limited liability structures and funds. The primary goal of the tangible asset portfolio is to generate a long-term sustainable and stable income stream, as well as generate appreciation at least commensurate with inflation (see Note 12 to the basic financial statements for additional investment related strategies and policies). Valuation practices of general partners and asset managers are consistent with private equity limited partnerships.

Collective Investment Trust Funds (Investments Measured at Net Asset Value)

The Retirement Fund invests in three separate Collective Investment Trust Funds (Fund). Each Fund determines a fair value by obtaining fair values of the underlying holdings, using reputable pricing sources and computing an overall net asset value per share. The holdings within each fund are publicly traded equity securities.

Two Funds are passively managed to approximate the capitalization weighted total rates of return of the Morgan Stanley Capital International (MSCI) U.S. Investable Market Index and the MSCI Emerging Markets Investable Market Index. Each Fund has daily openings and contributions, and withdrawals can be made on any business day. The Fund manager, at its discretion, may require withdrawal proceeds to be made partially or wholly in kind. Under certain circumstances the fund manager may choose to suspend valuation and/or the right to make contributions and withdrawals from the Fund. Such circumstances include actual or anticipated closure, restriction, or suspension of trading activity in any markets or exchanges where the Fund investments are traded, where the purchase, sale, or pricing of the Fund's investments would not be reasonably practicable or advisable, or where suspending contributions or withdrawals would be in the best interest of the Fund or participants.

One Fund seeks to achieve long-term capital appreciation through active investment management in emerging market countries. The index against which the Fund compares its performance is the MSCI Emerging Market Index. The Retirement Fund may redeem some or all of their holdings on each monthly valuation date. The Fund manager may delay redemption proceeds if it determines that it is reasonably necessary to prevent a material adverse impact on the Fund or other investors. The Fund manager, at its discretion, may require withdrawal proceeds to be made partially or wholly in kind.

Other Assets and Liabilities

Forward exchange contracts are valued by interpolating a value using the spot foreign exchange rate and forward points (based on the spot rate and currency interest rate differentials), which are all inputs that are observable in active markets (Level 2).

Collateral held and obligations under securities lending agreements are detailed in Note 8 to the basic financial statements. Cash collateral securities (and the offsetting obligation) are valued by the Retirement Fund lending agent and sourced from reputable pricing vendors, using models that are market-based measurements representing their good faith opinion as to the exit value of a security, in an orderly transaction under current market conditions. Such models take into account quoted prices, nominal yield spreads, benchmark yield curves, prepayment speeds, and other market corroborated inputs.

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 margin variation represents the current gain or loss remaining to be settled from the prior day. The custodian bank provides quoted market prices for these securities from a reputable pricing vendor.

Note 10. 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, 2018, the Retirement Funds held investments in financial futures, forward currency contracts, and total return swap 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 and total return swap 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, 2018, the Retirement Funds counterparty risk was approximately $19.0 million. The majority of the counterparties (58 percent) held a credit rating of A1 on Moody's rating scale. All counterparties held investment grade credit ratings of Baa2 and above.

Futures contracts are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price, and as such, 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. Derivatives, which are exchange traded, are not subject to credit risk.

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 in the future. 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, 2018, the Retirement Funds had outstanding forward currency contracts with a net unrealized gain of $5.0 million. At June 30, 2018, 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 $1.933 billion and $1.928 billion, respectively. The contracts have varying settlement dates ranging from July 2, 2018, to October 11, 2018.

Total return swap contracts are agreements where one party makes payments based on a set rate, either fixed or variable, while the other party makes payments based on the return of the underlying or reference asset. Total return swaps allows the party receiving the total return to gain exposure and benefit from a reference asset without physically owning the security. The Retirement Fund swaps total bond market index returns for total equity index returns as the reference asset in emerging markets. The open swap contracts have maturity dates of July 2, 2018 and July 3, 2018. The value of these contracts are highly sensitive to interest rate changes.

The Retirement Funds' fixed income portfolio held derivative securities consisting of collateralized mortgage obligations with a fair value of $101.4 million at June 30, 2018. Domestic and foreign commingled investment trust 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 these funds is unavailable.

	Classification	Changes in Fair Value - Included in Investment Income Amount		Fair Value at June 30, 2018 - Investment Derivative Amount		Notional
FUTURES CONTRACTS:						
Bond Index Futures	Investment	$	(27,252,584)	$	5,248,264	1,092,600,000
Equity Index Futures	Investment		78,277,742		(2,001,938)	54,949,920
		$	51,025,158	$	3,246,326	1,147,549,920
FORWARD CURRENCY CONTRACTS	Investment	$	(5,207,094)	$	5,032,889	1,940,859,358
TOTAL RETURN SWAP CONTRACTS:						
Total Return Swaps Bond	Investment	$	(7,200,622)	$	(97,067)	25,041,636
Total Return Swaps Equity	Investment		8,176,669		(2,937,050)	(84,599,256)
		$	976,047	$	(3,034,117)	(59,557,620)

Note 11. Dollar Weighted Returns

The dollar weighted returns for the CTF for each fiscal year end are as follows:

	Dollar Weighted Return
2018	9.55%
2017	14.08%
2016	2.41%
2015	4.58%
2014	18.88%
2013	12.35%
2012	1.35%
2011	21.14%
2010	13.27%
2009	-22.83%
2008	-1.19%

Note 12. Summary of Investment Policy

Per Revised Code of Washington (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 insurance 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 2018.

Strategic and Performance Objectives

In accordance with RCW 43.33A.110, the portfolio is managed to maximize 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 Bloomberg Barclays U.S. Universal Index.
- Implementation Value Added (IVA): 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 uninvestable 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.

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 2018. 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.

Asset Class	Target	Policy Range	Asset Class Range
Fixed Income	20%	16% - 24%	+ or - 4%
Tangible Assets	7%	5% - 9%	+ or - 2%
Real Estate	18%	15% - 21%	+ or - 3%
Global Equity	32%	27% - 37%	+ or - 5%
Private Equity	23%	19% - 27%	+ or - 4%
Innovation Portfolio	0%	0% - 5%	5%
Cash	0%	0% - 3%	3%

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.
- 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 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.
- 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, to provide liquidity to the Retirement Funds investment program, and to meet or exceed the return of the Bloomberg Barclays U.S. Universal Index, with volatility similar to or less than the index.

Permissible Fixed Income Market Segments

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

- U.S. Treasuries and Government Agencies.
- Credit Bonds.
- Investment Grade Mortgage-Backed Securities as defined by Bloomberg Barclays Capital Global Family of Fixed Income Indices.
- Investment Grade Asset-Backed Securities as defined by Bloomberg Barclays Capital Global Family of Fixed Income Indices.
- Investment Grade Commercial Mortgage-Backed Securities as defined by Bloomberg Barclays Capital Global Family of Fixed Income Indices.
- Convertible Securities.
- Non-Dollar Bonds.
- 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 Bloomberg 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 Bloomberg 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 +/- 20 percent of the duration of the portfolio's performance benchmark, the Bloomberg Barclays U.S. 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. 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.

The objectives and goals of the Private Equity investment program are to:

- Produce a well-diversified profitable portfolio that will enhance the total return of the Retirement Funds portfolio and ultimately pay benefits to participants and beneficiaries, and meet actuarial requirements.
- Diversify away from traditional capital market risks.
- Employ consistent strategies that contain sufficient flexibility to take advantage of opportunities available to the Retirement Funds, due to changes in the private equity or debt marketplaces.
- Achieve a superior total return as compared to traditional asset classes, and exceed the return of the MSCI All Country World Index Investable Market Index (MSCI ACWI IMI), lagged by one calendar quarter, by 300 basis points in the long run.

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, are combined 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.

The Retirement Fund may invest in any real estate opportunity demonstrating acceptable risk-adjusted returns, provided it is not prohibited by Board policy or law. Investment structures may include the following:

- Real Estate Operating Companies.
- Joint Ventures.
- Commingled Funds (either closed or open-ended).
- Co-investments with existing WSIB real estate partners.

Diversification within the Real Estate program may be achieved by the following:

- Property type: any property type to include office, industrial, retail, residential, hotels, self-storage, health care properties, parking structures, land, and "other."
- Capital structure: any equity, debt, or structures financial position, either private or public.
- Life cycle: stabilized, vacant, redevelopment, or ground-up development.
- Geographic: diversified by regions, both domestically and internationally.
- Partner concentration: attention to the amount that the Retirement Fund commits to any one partnership.
- Property level: attention to the amount of capital invested in any one property.

The WSIB's current benchmark for real estate seeks to earn an 8 percent annual investment return over a rolling 10-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 four investment strategies in the innovation portfolio involving private partnerships. 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, predictable, and persistent income stream. The secondary goal is to generate appreciation approximately commensurate with inflation. The structure of the investments are primarily targeted to those private funds or separate accounts, providing the WSIB with the most robust governance provisions related to acquisition, dispositions, debt levels, and ongoing operational decisions for annual capital expenditures. For diversification purposes the Tangible Assets' portfolio focuses on income producing, physical assets, in the upstream and midstream segment of four main industries - Minerals and Mining, Energy, Agriculture, and Society Essentials.

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

		Maturity				
Investment Type	**Total Fair Value**	**Less than 1 year**	**1-5 years**	**6-10 years**	**More than 10 years**	**Effective Duration ***
Mortgage and Other Asset Backed Securities	$ 1,243,243,791	$ 9,896,105	$ 917,741,373	$ 315,606,313	$ -	4.57
Corporate Bonds	10,970,888,668	430,738,072	4,818,522,201	4,014,195,314	1,707,433,081	5.86
U.S. Government and Agency Securities	7,010,089,666	2,018,132,596	2,579,814,753	1,541,110,071	871,032,246	4.90
Foreign Government and Agency Securities	1,898,496,169	76,773,208	999,317,816	534,313,719	288,091,426	5.37
Totally Internally Managed Fixed Income	21,122,718,294	2,535,539,981	9,315,396,143	6,405,225,417	2,866,556,753	5.42
Mortgage Backed TBA Forwards	445,619,552	445,619,552	-	-	-	0.00
Total Retirement Funds Investment Categorized	21,568,337,846	$ 2,981,159,533	$ 9,315,396,143	$ 6,405,225,417	$ 2,866,556,753	5.31

Investments Not Required to be Categorized	
Cash and Cash Equivalents	2,685,618,584
Equity Securities	34,009,131,410
Alternative Investments	43,386,905,182
Total Investments Not Categorized	80,081,655,176
Total Investments	$ 101,649,993,022

* Excludes cash balances in calculation

Schedule 2: Credit Rating Disclosures

Moodys Equivalent Credit 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	$ 9,279,958,199	$ 1,688,288,742	$ 519,410,494	$ 7,010,089,666	$ 62,169,297
Aa1	341,699,712	-	95,545,740	-	246,153,972
Aa2	224,622,506	-	134,456,676	-	90,165,830
Aa3	816,420,873	-	705,778,423	-	110,642,450
A1	1,208,011,841	-	927,509,570	-	280,502,271
A2	772,117,333	23,553	760,665,940	-	11,427,840
A3	1,499,302,713	-	1,482,212,930	-	17,089,783
Baa1	1,545,383,269	-	1,479,603,389	-	65,779,880
Baa2	1,949,068,141	551,048	1,570,294,632	-	378,222,461
Baa3	1,971,979,345	-	1,954,688,365	-	17,290,980
Ba1 or Lower	1,959,773,914	-	1,340,722,509	-	619,051,405
Total	$ 21,568,337,846	$ 1,688,863,343	$ 10,970,888,668	$ 7,010,089,666	$ 1,898,496,169

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	Open Foreign Exchange Contracts - Net	Total	Percent of Total Investment Balances
AUSTRALIAN DOLLAR	$ 7,193,149	$ 138,845,510	$ 574,653,045	$ 79,024,367	$ 1,543,170	$ 801,259,241	0.8%
BRAZILIAN REAL	301,014	111,279,126	209,855,290	-	900,345	322,335,775	0.3%
CANADIAN DOLLAR	5,851,650	-	650,250,947	-	(296,638)	655,805,959	0.6%
SWISS FRANC	211,251	-	771,009,438	-	17,697	771,238,386	0.8%
CHILEAN PESO	306,241	64,480,099	11,715,618	-	(15,589)	76,486,369	0.1%
YUAN RENMINBI	339,756	27,814,796	44,058,066	-	(215)	72,212,403	0.1%
COLOMBIAN PESO	16,847	79,600,447	5,180,583	-	(1,224)	84,796,653	0.1%
DANISH KRONE	1,796,718	-	208,508,450	-	(910,439)	209,394,729	0.2%
EURO CURRENCY	6,687,314	-	3,206,483,016	3,238,621,680	(711,882)	6,451,080,128	6.3%
POUND STERLING	8,713,506	-	2,048,421,611	-	(95,242)	2,057,039,875	2.0%
HONG KONG DOLLAR	5,162,680	-	794,596,764	-	(18,260)	799,741,184	0.8%
INDONESIAN RUPIAH	560,395	25,956,743	35,769,539	-	188,788	62,475,465	0.1%
INDIAN RUPEE	917,664	62,441,509	172,025,623	-	(458,715)	234,926,081	0.2%
JAPANESE YEN	19,712,569	-	2,534,279,890	-	2,292,754	2,556,285,213	2.5%
SOUTH KOREAN WON	4,708,886	-	377,693,061	-	2,616,653	385,018,600	0.4%
MEXICAN PESO (NEW)	184,800	75,913,270	75,227,227	-	665,764	151,991,061	0.1%
NORWEGIAN KRONE	1,132,421	-	81,012,070	-	143,124	82,287,615	0.1%
SWEDISH KRONA	2,288,883	-	291,167,236	-	691,964	294,148,083	0.3%
SINGAPORE DOLLAR	1,199,711	-	173,838,391	-	(15,946)	175,022,156	0.2%
THAILAND BAHT	2,335,405	-	66,759,605	-	12,696	69,107,706	0.1%
TURKISH LIRA	373,283	-	76,331,516	-	578,340	77,283,139	0.1%
NEW TAIWAN DOLLAR	1,636,523	-	215,094,420	-	(478,867)	216,252,076	0.2%
OTHER	1,737,218	69,878,980	224,388,292	-	(1,553,747)	294,450,743	0.2%
Total Foreign Currency Exposure	$ 73,367,884	$ 656,210,480	$ 12,848,319,698	$ 3,317,646,047	$ 5,094,531	$ 16,900,638,640	16.6%

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Members of the Washington State Investment Board
Olympia, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Retirement Funds as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Retirement Funds' financial statements, and have issued our report thereon dated September 24, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Retirement Funds' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Retirement Funds' internal control. Accordingly, we do not express an opinion on the effectiveness of the Retirement Funds' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Retirement Funds' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Retirement Funds' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Retirement Funds' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Boise, Idaho
September 24, 2018

LABOR AND INDUSTRIES' FUND

CPAs & BUSINESS ADVISORS

Independent Auditor's Report

To the Members of the Washington State Investment Board
Olympia, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the Labor and Industries' Funds (which are comprised of the Accident Fund, the Medical Aid Fund, the Pension Reserves Fund, and the Supplemental Pension Fund) of the State of Washington as managed by the Washington State Investment Board (the Labor and Industries' Funds), which comprise the statement of net investment position as of June 30, 2018, 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 of America; 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.

Auditors' 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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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

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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 investment position of the Labor and Industries' Funds as of June 30, 2018, and the changes in net investment position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic 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 of America, 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2018 on our consideration of the Labor and Industries' Funds' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Labor and Industries' Funds' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Labor and Industries' Funds' internal control over financial reporting and compliance.

Eide Bailly LLP

Boise, Idaho
September 24, 2018

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, assets, and liabilities of the L&I Funds as of June 30, 2018. 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, 2018. The following table compares the net investment position of each major investment classification at June 30, 2018, with those at June 30, 2017. In addition, they summarize the changes in each major investment classification for the fiscal year ended June 30, 2018 and 2017, as well as a comparison of investment performance, the results of financial operations, and other relevant information between the two reporting periods. 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.

As shown in the following table, the net investment position of the L&I Funds increased by $505.8 million during the fiscal year ended June 30, 2018. Net contributions from the L&I Funds during the year increased net investment position by $256.4 million and were mainly invested in fixed income securities. Net investment income increased net investment position by $249.4 million and was reinvested in the various asset classes of the L&I Funds.

Net investment income decreased by $302.0 million during the current fiscal year as compared to the prior year, mainly due to a large decrease in net realized and unrealized gains and losses in both the equity and debt security portfolios. The current fiscal year return for the L&I Funds was 1.5 percent compared to the prior fiscal year return of 3.5 percent. The decrease in returns resulted in the decrease in realized and unrealized gains and losses from the prior fiscal year of $298.0 million.

Net contributions from the L&I Funds decreased by $19.4 million. Effective July 1, 2017, L&I enacted a 4.8 percent cost of living adjustment paid to pension recipients which reduced the amount contributed for investment purposes during the current fiscal year.

Investment related receivables and payables, which include investments purchased and sold pending settlement over year end, income receivables, and expenses payable, are reflected in the net investment position for each asset class. These balances fluctuate from year to year based on invested balances or trading activity. Pending trade balances vary due to fluctuations in unsettled securities transactions each year. 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 and can vary substantially from year to year. Investment income receivables and investment expenses payable generally fluctuate within each asset class based on the invested balances each year.

	Summarized Change in Net Investment Position and Returns by Asset Class							
	Fiscal Year End June 30, 2018			Fiscal Year End June 30, 2017			Year Over Year Change	
	Debt Securities (*)	Equity Securities	Total	Debt Securities (*)	Equity Securities	Total	Increase (Decrease)	Percent Change
Beginning Net Investment Position (**)	$ 14,417,537,014	$ 2,106,130,078	$ 16,523,667,092	$ 13,930,137,900	$ 1,766,295,539	$ 15,696,433,439	$ 827,233,653	5.3%
Investment Income:								
Interest, Dividends, and Other Investment Income	478,003,618	1,108,728	479,112,346	482,201,281	226,117	482,427,398	(3,315,052)	-0.7%
Realized and Unrealized Gains (Losses)	(465,005,322)	241,242,694	(223,762,628)	(264,674,243)	338,936,254	74,262,011	(298,024,639)	-401.3%
Less: Investment Expenses	(5,069,825)	(866,263)	(5,936,088)	(4,522,845)	(711,589)	(5,234,434)	701,654	13.4%
Net Investment Income	7,928,471	241,485,159	249,413,630	213,004,193	338,450,782	551,454,975	(302,041,345)	54.8%
Net Contributions	255,937,528	416,997	256,354,525	275,439,310	339,368	275,778,678	(19,424,153)	-7.0%
Transfers to Other Asset Classes	39,768,548	(39,768,548)	-	(1,044,389)	1,044,389	-	-	NA
Ending Net Investment Position (**)	**$ 14,721,171,561**	**$ 2,308,263,686**	**$ 17,029,435,247**	**$ 14,417,537,014**	**$ 2,106,130,078**	**$ 16,523,667,092**	**$ 505,768,155**	**3.1%**

	Debt Securities (*)	Equity Securities	Total
Increase in Net Investment Position	**$ 303,634,547**	**$ 202,133,608**	**$ 505,768,155**
Percentage Change in Net Investment Position	**2.1%**	**9.6%**	**3.1%**
One Year Time Weighted Return - June 30, 2018	**0.1%**	**11.4%**	**1.5%**
One Year Time Weighted Return - June 30, 2017	**1.5%**	**19.2%**	**3.5%**

(*) Includes cash balances used for trading purposes
(**) Net investment position includes accrued income, accrued expenses, and pending trades within each asset class

The following summarizes the changes in net investment position for each main investment category in the previous table:

- ***Debt securities*** net investment position increased by $303.6 million. Interest income net of expenses of $472.9 million were reinvested to debt securities during the current fiscal year. Net realized and unrealized losses decreased balances in this asset class by $(465.0) million. The remaining increase was due to reinvestment of proceeds for contributions and asset allocation rebalancing transfers from the equity portfolio. The net investment position and performance of debt securities includes $122.7 million of cash balances used for trading purposes.

  Despite a rising interest rate environment and additional investments made to the debt portfolio, interest income on fixed income securities declined by $4.2 million from the previous fiscal year. The average coupon rate at June 30, 2018 ranged from 3.0 to 3.6 percent for the Accident Fund, Medical Aid Fund, and Pension Reserve Fund. This was a decrease from the prior year average coupon rates that ranged from 3.1 to 3.7 percent. The slight reduction of coupon rates resulted in a decrease of interest income over the prior year.

  The debt portfolio returned 0.1 percent during the current year which was a substantial decrease over the prior year return of 1.5 percent. A rising interest rate environment during the current fiscal year resulted in lower bond prices and year over year returns. This substantial decrease in returns resulted in an increase in net realized and unrealized losses of $200.3 million from the prior fiscal year within the debt portfolio. The portfolios outperformed their Comparable Market Indices (CMI) due to an overweight to credit bonds versus U.S. Treasuries, as well as a slightly shorter maturity profile resulting in a less negative price return due to the higher interest rates.

In the U.S., the Federal Reserve hiked interest rates three times over the last 12 months in response to the solid rate of growth and improvements in the labor market. This led U.S. Treasury rates higher for the year with the shorter rates increasing significantly more than the longer dated rates. However, the improved economic outlook failed to further tighten credit spreads from already very low levels. Instead credit spreads widened for the year, with the majority of the widening occurring the last six months. The higher interest rates and wider credit spreads resulted in lower fixed income prices for both U.S. Treasuries and credit bonds. With the increase in rates more muted on the longer maturity bonds, the longer maturity segment of the market outperformed the intermediate maturity bonds. Short maturity bonds with their much lower price sensitivity to changes in interest rates also outperformed the intermediate maturity bonds. The extra income received from credit bonds was enough to offset the price decrease from wider credit spreads, resulting in credit bonds performing better than U.S. Treasuries with similar maturity for the year.

In June 2017, the WSIB approved a change to existing policy to allow for investments in real estate. The new asset allocation reflects a 5 percent allocation in the Accident Fund, Medical Aid Fund, and Pension Reserve Fund. It is anticipated the future purchases of real estate will be funded in large part from a reduced allocation to fixed income securities. The Board has elected to take a gradual implementation approach to reach the strategic asset allocation. It is anticipated that it will take up to seven years given the liquidity constraints of this asset class.

- ***Equity securities*** net investment position increased by $202.1 million from the prior fiscal year. Net realized and unrealized gains increased the net investment position of equity securities by $241.2 million. Equity securities were sold and the proceeds of $39.8 million were transferred to the debt security portfolio to maintain approved asset allocation targets. During Fiscal Year 2018, the equity portfolio returned 11.4 percent compared to the prior fiscal year return of 19.2 percent. This substantial decrease in returns resulted in a decrease of net realized and unrealized gains from the previous fiscal year of $97.7 million.

The global equity market returns experienced during the fiscal year end 2018 remained strong, but were noticeably below those of fiscal year 2017. The L&I equity portfolio is managed to passively track the broad global stock market as defined by the Morgan Stanley Capital International All Country World Investable Market Index net with USA gross (MSCI ACWI IMI net with USA Gross). Overall, the U.S. equity market returned 15.0 percent and the Non-U.S. markets returned 7.8 percent as measured by MSCI indices, which are broad barometers of overall market returns. The prior year index return for the U.S. and Non-U.S. markets were 18.4 percent and 20.4 percent, respectively which demonstrates noticeable declines in each. The U.S. market performance exceeded that of the Non-U.S. markets in the current fiscal year. Also, U.S. small cap stocks generally outperformed large cap stocks, as well as the broader market.

The global economy continued to grow at a brisk pace over the last year. U.S. unemployment rate hit lows not seen since the 1960s, and higher commodity prices had an overall positive effect on emerging market countries. The strength of the economic growth was offset by an increase in geopolitical risk with heightened tension with North Korea and an escalation of the potential for a trade war between the U.S. and China centered on the use of tariffs. In Europe the growth showed signs of slowing down over the last six months on the heels of a stalemate in the UK Brexit negotiations as well as Italy's difficulty in forming a government following the election. Other factors influencing the global equity returns during the fiscal year 2018 include the recent U.S. tax cuts, the strong returns from the previous fiscal year (where the returns in the following year are typically lower), and the strong performance of U.S. information technology stocks during this period.

As shown in the following table, securities on loan decreased by $158.1 million and collateral held under securities lending agreements decreased accordingly. Demand to borrow U.S. Treasuries held in the L&I portfolios declined from prior year as a result of ongoing increase in supply from new U.S. Treasury Bill issuance and the recent Federal Reserve interest hikes. Lending activity in the portfolios was limited to U.S. Treasuries with upcoming maturities and 7-year U.S. Treasury Notes.

	June 30, 2018	June 30, 2017	Increase (Decrease)	Percentage Change
Securities on Loan Fiscal Year End	$ 348,001,238	$ 506,123,451	$ (158,122,213)	-31.2%
Cash Collateral Held Under Securities Lending Agreements	99,809,837	94,141,614	5,668,223	
Non Cash Collateral Held Under Securities Lending Agreements	254,212,119	430,299,069	(176,086,950)	
Total Collateral Held	**$ 354,021,956**	**$ 524,440,683**	**$ (170,418,727)**	**-32.5%**

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 the Department of Labor and Industries (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, 2018

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	$ 37,616,173	$ 28,112,293	$ 38,748,829	$ 18,176,042	$ 122,653,337	0.7%
DEBT SECURITIES						
Mortgage and Other Asset Backed Securities	482,247,418	381,939,592	361,126,108	-	1,225,313,118	
Corporate Bonds	3,804,185,131	3,244,881,899	2,742,763,543	21,738,250	9,813,568,823	
U.S. Government and Agency Securities	846,797,294	748,217,635	576,613,328	74,505,658	2,246,133,915	
Foreign Government and Agency Securities	406,464,130	396,361,360	248,703,877	1,977,470	1,053,506,837	
Total Debt Securities	5,539,693,973	4,771,400,486	3,929,206,856	98,221,378	14,338,522,693	85.5%
EQUITY SECURITIES						
Commingled Investment Trusts	748,892,332	1,013,258,926	546,130,702	-	2,308,281,960	
Total Equity Securities	748,892,332	1,013,258,926	546,130,702	-	2,308,281,960	13.8%
Total Investments	6,326,202,478	5,812,771,705	4,514,086,387	116,397,420	16,769,457,990	100.0%
Collateral Held Under Securities Lending Agreements	2,014,662	40,980,911	55,857,512	956,752	99,809,837	
Investment Earnings Receivable	43,236,703	33,524,336	32,908,153	378,319	110,047,511	
Receivable for Investments Sold	50,000,000	50,000,000	50,000,000	-	150,000,000	
Total Assets	6,421,453,843	5,937,276,952	4,652,852,052	117,732,491	17,129,315,338	
LIABILITIES						
Obligations Under Securities Lending Agreements	2,014,662	40,980,911	55,857,512	956,752	99,809,837	
Accounts Payable	20,629	25,538	14,691	9,396	70,254	
Total Liabilities	2,035,291	41,006,449	55,872,203	966,148	99,880,091	
NET INVESTMENT POSITION	$ 6,419,418,552	$ 5,896,270,503	$ 4,596,979,849	$ 116,766,343	$ 17,029,435,247	

Labor and Industries' Funds Statement of Changes in Net Investment Position - Year Ended June 30, 2018

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	$ 184,526,222	$ 147,282,216	$ 145,407,126	$ 1,896,782	$ 479,112,346
Net Realized Capital Gains	336,516,223	463,696,263	297,412,946	12,005	1,097,637,437
Unrealized Losses	(436,331,004)	(497,845,815)	(386,820,392)	(402,854)	(1,321,400,065)
Less:					
Investment Expenses	(984,357)	(942,251)	(657,794)	(182,161)	(2,766,563)
WSIB Operating Expenses	(1,178,788)	(1,089,091)	(876,729)	(24,917)	(3,169,525)
Net Investment Income	82,548,296	111,101,322	54,465,157	1,298,855	249,413,630
Net Amount Contributed (Withdrawn)	296,584,788	97,704,091	(137,459,271)	(475,083)	256,354,525
Increase (Decrease) in Net Investment Position	379,133,084	208,805,413	(82,994,114)	823,772	505,768,155
Net Investment Position - June 30, 2017	6,040,285,468	5,687,465,090	4,679,973,963	115,942,571	16,523,667,092
Net Investment Position - June 30, 2018	$ 6,419,418,552	$ 5,896,270,503	$ 4,596,979,849	$ 116,766,343	$ 17,029,435,247

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 U.S.for governments, prescribed by the Governmental Accounting Standards Board (GASB) on the accrual basis of accounting.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments and are comprised of short-term investment funds which are valued at cost. Accordingly, these investments are excluded from the fair value schedule in Note 6 to the basic financial statements.

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 2018 was $1.7 million. Securities lending expenses during the fiscal year totaled $0.6 million.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. 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 Funds' 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. The 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, 2018, 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 fixed income investments. As of June 30, 2018, the L&I Funds' portfolio durations were within the duration targets documented in Note 7.

Schedules 1 and 2 provide information about the interest rate risks associated with the L&I Funds' investments, as of June 30, 2018. 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, 2018, 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 L&I Funds' fair value at the time of purchase, nor shall its fair value exceed 6 percent of the L&I Funds' fair value at any time. There was no concentration of credit risk, as of June 30, 2018.

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 foreign currency exposure at June 30, 2018, consists of $1.0 billion (excludes U.S. dollar denominated securities) invested in international commingled equity index funds. Foreign currency exposure for these commingled equity index funds are presented in Schedule 3.

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, 2018, was approximately $348.0 million. The securities on loan remain in the Statement of Net Investment Position in their respective categories. At June 30, 2018, cash collateral received totaling $99.8 million is reported as a securities lending obligation, and the fair value of the reinvested cash collateral totaling $99.8 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, 2018, was $254.2 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, 2018.

In Millions:	Cash Collateral	Non-Cash Collateral	Total
Mortgage Backed Securities	$ -	$ 254.2	$ 254.2
Repurchase Agreements	23.4	-	23.4
Yankee CD	33.6	-	33.6
Commercial Paper	29.5	-	29.5
Cash Equivalents and Other	13.3	-	13.3
Total Collateral Held	**$ 99.8**	**$ 254.2**	**$ 354.0**

During Fiscal Year 2018, securities lending transactions could be terminated on demand by either the L&I Funds or the borrower. As of June 30, 2018, the cash collateral held had an average duration of 16.2 days and an average weighted final maturity of 79.0 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 2018, there were no significant violations of legal or contractual provisions, no failures by any borrowers to return loaned securities, or to pay distributions thereon. During Fiscal Year 2018, the L&I Funds incurred no losses resulting from a default by either the borrowers or the securities lending agents.

Note 5. Derivatives

The 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 exchange 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, 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, 2018, the only derivative securities held directly by the L&I Funds were collateralized mortgage obligations of $683.3 million.

Note 6. Fair Value

GASB Statement No. 72, Fair Value Measurement and Application, (Statement 72) specifies a hierarchy of valuation classifications based on whether the inputs to the valuation techniques used in each valuation classification are observable or unobservable. These classifications are summarized in three broad levels listed below:

- Level 1 – Unadjusted quoted prices for identical instruments in active markets.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in markets that are active; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs other than quoted prices that are observable for the assets or liabilities (such as exchange rates, financing terms, interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks, and default rates).
- Level 3 – Valuations derived from valuation techniques in which significant inputs or significant value drivers are unobservable.

Inputs used to measure fair value might fall in different levels of the fair value hierarchy; in which case, the L&I Funds default to the lowest level input that is significant to the fair value measurement of each investment, with Level 3 being the lowest level. The determination of fair value of an investment within the hierarchy of classifications above is not necessarily an indication of the risk or liquidity associated with the investments. In determining the appropriate levels, the L&I Funds performed a detailed analysis of the assets and liabilities that are subject to Statement 72. Valuation policies and procedures are managed by the Investment and Financial Services unit of the WSIB, which regularly monitors fair value measurements. Fair value measurements are prepared and reviewed monthly, and any third party valuations are reviewed for reasonableness and compliance with relevant accounting standards.

The L&I Funds receive fair value prices for publicly traded debt securities directly from their custodian bank. These prices are obtained from reputable pricing sources which include but are not limited to Bloomberg and Interactive Data Corporation. The custodian bank performs the following tolerance and review checks on the pricing data on a daily basis:

- Researches price changes from the previous day of 2 to 5 percent or greater, with corroborating evidence required from the primary pricing vendor.
- Prices unchanged in excess of ten days are sent to the appropriate vendor for review and verification.

The L&I Funds invest in Collective Investment Trusts operated by a bank or trust company and groups assets contributed into a commingled investment fund. These "mutual fund" type investments are not available to the general public and are open-ended funds, which issues or reduces shares for contributions and redemptions from the fund. The commingled fund manager determines a periodic price per unit of the collective trust by obtaining fair values of the underlying holdings using reputable pricing sources and computing an overall net asset value per share.

The following table presents fair value measurements as of June 30, 2018:

		Fair Value Measurements Using:		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
INVESTMENTS				
DEBT SECURITIES				
Mortgage and Other Asset Backed Securities	$ 1,225,313,118	$ -	$ 1,225,313,118	$ -
Corporate Bonds	9,813,568,823	-	9,813,568,823	-
U.S. and Foreign Government and Agency Securities	3,299,640,752	-	3,299,640,752	-
Total Debt Securities	14,338,522,693	-	14,338,522,693	-
Total Investments By Fair Value Level	14,338,522,693	-	14,338,522,693	-
INVESTMENTS MEASURED AT NET ASSET VALUE				
Commingled Equity Investment Trusts	2,308,281,960			
Total Investments Measured at Fair Value	$ 16,646,804,653			
OTHER ASSETS (LIABILITIES) AT FAIR VALUE				
Collateral Held Under Securities Lending Agreements	$ -	$ -	$ 99,809,837	$ -
Obligations Under Securities Lending Agreements	-	-	(99,809,837)	-
Total Other Assets (Liabilities) Measured at Fair Value	$ -	$ -	$ -	$ -

Debt Securities (Level 2)

Investments classified as Level 2 in the above table were comprised of publicly traded debt securities. Publicly traded debt securities are sourced from reputable pricing vendors, using models that are market-based measurements representing their good faith opinion as to the exit value of a security, in an orderly transaction under current market conditions. Such models take into account quoted prices, nominal yield spreads, benchmark yield curves, prepayment speeds, and other market corroborated inputs.

Collective Investment Trust Funds (Investments Measured at Net Asset Value)

The L&I Funds invest in a single Collective Investment Trust Fund (Fund). The Fund is passively managed to track the investment return of a broad, global equity index, the Morgan Stanley Capital International All Country World Investible Market Index net with USA gross (MSCI ACWI IMI net with USA Gross). The Fund determines a fair value by obtaining the values of the underlying holdings, using reputable pricing sources and computing an overall net asset value per share. The holdings within each fund are publicly traded equity securities.

The Fund has daily openings and contributions and withdrawals can be made on any business day. The Fund manager, at its discretion, may require withdrawal proceeds to be made partially or wholly in kind. Under certain circumstances the Fund manager may choose to suspend valuation and/or the right to make contributions and withdrawals from the Fund. Such circumstances include actual or anticipated closure, restriction, or suspension of trading activity in any markets or exchanges where the Fund investments are traded, where the purchase, sale, or pricing of the Fund's investments would not be reasonably practicable or advisable, or where suspending contributions or withdrawals would be in the best interest of the Fund or participants.

Note 7. 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:

Investment 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.
- Subject to those above, achieve a maximum return at a prudent level of risk.

Investment Performance Objectives

The investment 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 Investment 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.

Risk 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, which states 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." RCW 43.33A.140 states in part, 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 or common stock holdings cost shall exceed 3 percent of the Fund's fair market value at the time of purchase, nor shall its market value exceed 6 percent of the fund's market value at any time (RCW 43.33A.140).

Asset Allocation

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

Market conditions, funding status, and liability assumptions are dynamic, therefore, WSIB staff meets quarterly with L&I staff to review the investment portfolios.

Implementation Target 12-31-2019			
	Fixed Income	Equity	Real Estate
Accident Fund	83%	15%	2%
Pension Reserve Fund	88%	10%	2%
Medical Aid Fund	78%	20%	2%
Supplemental Pension Fund	100%	0%	0%

The Board has delegated to the Executive Director the authority to rebalance the asset allocation within the procedures established by the WSIB. 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.

The Board has elected a gradual implementation plan to reach the strategic asset allocation. The global equity and fixed income holdings are expected to reach their targets over a period of 2.5 years while real estate will take longer, up to seven years or more given liquidity constraints of the asset class. If Real Estate, due to timing or illiquidity is above or below its target, Fixed Income will be used to offset the balance. The long-term strategic asset allocation target for real estate is 5 percent in all funds, excluding the Supplemental Pension Fund which has no allocation to this asset class.

Asset Class Structure

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

Equity

The benchmark and structure for global equities will be the Morgan Stanley Capital International All Country World Investable Market Index net with USA gross (MSCI ACWI IMI net with USA gross). The global equity portfolio will be passively managed in commingled index funds. The commingled fund managers 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.

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

Accident Fund (608): within plus or minus 20 percent of a duration target of 6 years.
Pension Reserve Fund (610): within plus or minus 20 percent of a duration target of 8 years.
Medical Aid Fund (609): within plus or minus 20 percent of a duration target of 5 years.
Supplemental Pension Fund (881): duration will remain short.

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 Bloomberg Barclays Family of Fixed Income Indices
- Investment Grade Asset Backed Securities, as defined by Bloomberg Barclays Family of Fixed Income Indices
- Investment Grade Commercial Mortgage Backed Securities, as defined by Bloomberg Barclays 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 Bloomberg Barclays 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.

Real Estate

The objectives and characteristic of the real estate portfolio are as follows:

- To generate a 6 percent annual investment return over a rolling 10-year period.
- The return will be generated by current income, and the portfolio will be intentionally constructed to focus on yield rather than total return.
- The portfolio will be diversified across geography and property type.
- The benchmark for the portfolio is a total net return of 6 percent measured over a rolling 10-year period.
- No more than 15 percent of the real estate portfolio will be invested in a single property after the programs build-out period.Schedule 1: Schedule of Maturities and Credit Ratings.

Schedule 1: Schedule of Maturities and Credit Ratings

		Maturity					
Investment Type	Total Fair Value	Less than 1 year	1-5 years	6-10 years	More than 10 years	Effective Duration *	Credit Rating
Mortgage and Other Asset Backed Securities	$ 1,225,313,118	$ 5,247,577	$ 773,103,463	$ 396,306,666	$ 50,655,412	4.9	Schedule 2
Corporate Bonds	9,813,568,823	739,884,570	4,386,771,638	2,076,621,870	2,610,290,745	6.2	Schedule 2
U.S. Government and Agency Securities	2,246,133,915	401,878,369	730,578,704	745,501,415	368,175,427	6.3	Aaa
Foreign Government and Agencies	1,053,506,837	110,242,980	689,952,230	223,676,027	29,635,600	3.7	Schedule 2
	14,338,522,693	$ 1,257,253,496	$ 6,580,406,035	$ 3,442,105,978	$ 3,058,757,184	5.9	
Investments Not Required to be Categorized							
Commingled Investment Trusts	2,308,281,960						
Cash and Cash Equivalents	122,653,337						
Total Investments Not Categorized	2,430,935,297						
Total L&I Funds Investments	$ 16,769,457,990						

* Excludes cash and cash equivalents

Schedule 2: Additional Credit Ratings Disclosure

Moodys Equivalent Credit Rating	Mortgage and Other Asset Backed Securities	Corporate Bonds	Foreign Government and Agency Securities
Aaa	$ 1,225,313,118	$ 544,097,140	$ 325,511,200
Aa1	-	160,421,460	84,050,400
Aa2	-	141,222,300	212,074,600
Aa3	-	1,052,768,436	244,498,160
A1	-	1,680,607,470	109,337,000
A2	-	1,304,262,349	-
A3	-	1,738,895,680	-
Baa1	-	1,161,471,638	22,906,127
Baa2	-	1,303,553,990	55,129,350
Baa3	-	464,451,450	-
Ba1 or Lower	-	261,816,910	-
Total	$ 1,225,313,118	$ 9,813,568,823	$ 1,053,506,837

Schedule 3: Foreign Currency Exposure

Foreign Currency Denomination	Equity Securities	Percent of Total Investments
EURO CURRENCY	$ 230,410,444	1.4%
JAPANESE YEN	185,463,407	1.1%
POUND STERLING	134,105,464	0.8%
HONG KONG DOLLAR	81,985,335	0.5%
CANADIAN DOLLAR	71,828,463	0.4%
SWISS FRANC	53,979,508	0.3%
AUSTRALIAN DOLLAR	51,823,832	0.3%
SOUTH KOREAN WON	39,342,038	0.2%
NEW TAIWAN DOLLAR	32,811,853	0.2%
SWEDISH KRONA	21,780,965	0.1%
SOUTH AFRICAN RAND	16,108,708	0.1%
BRAZILIAN REAL	14,984,001	0.1%
DANISH KRONE	12,649,390	0.1%
SINGAPORE DOLLAR	9,753,868	0.1%
MEXICAN PESO (NEW)	7,899,327	0.1%
RUSSIAN RUBLE	7,101,564	Trace
OTHER (MISC)	45,638,365	0.3%
Total Foreign Currency Exposure	$ 1,017,666,532	6.1%

CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Members of the Washington State Investment Board
Olympia, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained *in Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Labor and Industries' Funds as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Labor and Industries' Funds' financial statements, and have issued our report thereon dated September 24, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Labor and Industries' Funds' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Labor and Industries' Funds' internal control. Accordingly, we do not express an opinion on the effectiveness of the Labor and Industries' Funds' internal control.

A *deficiency in internal control exists* when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during

our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Labor and Industries' Funds' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Labor and Industries' Funds' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Labor and Industries' Funds' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Boise, Idaho
September 24, 2018

PERMANENT FUNDS

CPAs & BUSINESS ADVISORS

Independent Auditor's Report

To the Members of the Washington State Investment Board
Olympia, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the Permanent Funds (which are comprised of the American Indian Scholarship Endowment Fund, Agricultural School Fund, Normal School Fund, Common School Fund, Scientific School Fund, and State University Fund) 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, 2018, 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 of America; 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.

Auditors' 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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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

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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 investment position of the Permanent Funds as of June 30, 2018, and the changes in net investment position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic 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 of America, 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2018 on our consideration of the Permanent Funds' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Permanent Funds' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Permanent Funds' internal control over financial reporting and compliance.

Eide Bailly LLP

Boise, Idaho
September 24, 2018

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 departments. 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, as of June 30, 2018. 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, 2018. The following table compares the net investment position of each major investment classification at June 30, 2018, with those at June 30, 2017. In addition, they summarize the changes in each major investment classification for the fiscal year ended June 30, 2018 and 2017, as well as a comparison of investment performance, the results of financial operations, and other relevant information between the two reporting periods. 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.

As shown in the following table, the net investment position of the Permanent Funds increased by $19.7 million during the fiscal year ended June 30, 2018. Net contributions from the Department of Natural Resources (DNR) on behalf of the Permanent Funds during the year increased net investment position by $16.4 million and were mainly invested in fixed income securities. Net investment income increased net investment position by $45.8 million. Distributable investment income (interest, dividends, and other investment income net of investment expenses) of $42.5 million was distributed to the state colleges and universities pursuant to state laws. Interest, dividends, and other investment income in the accompanying financial statements includes capital gains and losses resulting from sales of the underlying holdings of the debt and equity funds, which are invested in commingled investment funds managed by the WSIB.

Net investment income decreased by $3.9 million during the current fiscal year as compared to the prior year for the following reasons:

- Interest, dividends, and other investment income increased by $13.1 million over the prior fiscal year in the various portfolios based on the distributable investment income within each fund. During the current fiscal year, a new asset allocation policy was adopted with the ultimate goal of moving the equity portfolio from a U.S. only to global equity mandate. As part of the transition to international markets, U.S. equity securities were sold to fund purchases of international equity securities which realized significant capital gains within the equity portfolio. These gains were distributed from the Commingled Monthly Equity Fund (CMEF) and were a significant component of the overall increase in the interest, dividends, and other investment income.

  Interest and dividend earnings within the commingled investment funds remained fairly consistent during the current fiscal year as compared to the prior fiscal year. The Commingled Monthly Bond Fund (CMBF) average coupon rates remained stable year over year at 2.9 percent and accordingly interest earnings remained stable as well. Dividend yield of the CMEF also remained stable with a slight decline of ten basis points to 3.1 percent in the current fiscal year.

PERMANENT FUNDS

- Realized and unrealized gains and losses decreased by $17.1 million as a result of decreased investment returns of the entire portfolio. The equity portfolio, which represented 31 percent of invested balances at year end, returned 14.1 percent in the current year as compared to the prior year return of 18.5 percent. The CMEF decline in return was the main driver of the total year over year decrease in returns. Both cash and cash equivalents and debt securities had modest increases in their year over year performance.

Net contributions from DNR increased by $3.5 million from the previous fiscal year. The contributions received from DNR each year are dependent on timber and land sales held as corpus on behalf of the Permanent Funds. These contributions are directly influenced by the volume of sales, timber and land prices, and other economic factors which change from year to year and impact the amount available to invest in securities by the WSIB.

Distributions to the beneficiary funds increased by $11.3 million and are directly correlated to the interest, dividend, and other investment income reported in the financial statements. Certain investment income is distributed to the beneficiaries and is based on the distributable earnings within each commingled fund. Distributable earnings include cash basis interest, dividends, realized gains, and are net of fund expenses and realized losses. There are timing issues between the income reported and the income distributed to the beneficiaries for various accounting related accruals. The large increase in distributions from the prior year was mainly the result of capital gains realized on the sale of debt and equity securities. As discussed previously, the main factor contributing to the sale of equity securities was the equity rebalancing from a U.S. only to global mandate.

Summarized Change in Net Investment Position and Returns by Asset Class

	Fiscal Year End June 30, 2018				Fiscal Year End June 30, 2017				Year Over Year Change	
	Cash and Cash Equivalents	Debt Securities	Equity Securities	Total	Cash and Cash Equivalents	Debt Securities	Equity Securities	Total	Increase (Decrease)	Percent Change
Beginning Net Investment Position (*)	$ 1,433,040	$ 697,274,005	$ 345,102,743	$ 1,043,809,788	$ 2,079,366	$ 710,365,304	$ 299,935,469	$ 1,012,380,139	$ 31,429,649	3.1%
Investment Income:										
Interest, Dividends, and Other Investment Income	11,940	23,333,973	21,190,803	44,536,716	5,290	20,086,804	11,339,085	31,431,179	13,105,537	41.7%
Realized and Unrealized Gains (Losses)	-	(23,747,329)	25,241,480	1,494,151	-	(25,247,507)	43,805,787	18,558,280	(17,064,129)	-91.9%
Less: Investment Expenses	(1,957)	(133,725)	(62,937)	(198,619)	(37,545)	(122,852)	(56,295)	(216,692)	(18,073)	-8.3%
Net Investment Income	9,983	(547,081)	46,369,346	45,832,248	(32,255)	(5,283,555)	55,088,577	49,772,767	(3,940,519)	-7.9%
Net Amount Contributed	16,357,000	-	-	16,357,000	12,869,974	-	-	12,869,974	3,487,026	27.1%
Withdrawals and Distributions	(23,780)	(23,189,559)	(19,281,538)	(42,494,877)	23,924	(19,954,227)	(11,282,789)	(31,213,092)	11,281,785	36.1%
Transfers Between Asset Classes	(15,814,764)	59,801,092	(43,986,328)	-	(13,507,969)	12,146,483	1,361,486	-	-	NA
Ending Net Investment Position (*)	**$ 1,961,479**	**$ 733,338,457**	**$ 328,204,223**	**$ 1,063,504,159**	**$ 1,433,040**	**$ 697,274,005**	**$ 345,102,743**	**$ 1,043,809,788**	**$ 19,694,371**	**1.9%**

	Cash and Cash Equivalents	Debt Securities	Equity Securities	Total
Increase (Decrease) in Net Investment Position	**$ 528,439**	**$ 36,064,452**	**$ (16,898,520)**	**$ 19,694,371**
Percentage Change in Net Investment Position	**36.9%**	**5.2%**	**-4.9%**	**1.9%**

	Cash and Cash Equivalents	Debt Securities	Equity Securities	Total
One Year Time Weighted Return - June 30, 2018	**1.2%**	**0.0%**	**14.1%**	**4.4%**
One Year Time Weighted Return - June 30, 2017	**0.5%**	**-0.7%**	**18.5%**	**5.0%**

(*) Net investment position includes accrued income, accrued expenses, and pending trades within each asset class

The following summarizes the changes in net investment position for each main investment category in the previous table:

- ***Cash and cash equivalents*** net investment position increased by $0.5 million. This cash balance represents less than 1.0 percent of total invested balances and is within policy ranges. 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, distributions made to beneficiaries, and the reinvestment to other asset classes. Cash returns for the one-year period ended June 30, 2018, increased over the prior fiscal year to 1.2 percent. Short-term rates moved considerably higher over the last year as a result of Federal Reserve actions and anticipated future actions. The Federal Reserve increased the target range for the federal funds rate three times during this fiscal year for a total of 75 basis points. The Net Investment Position of Cash and Cash Equivalents include accrued income and accrued expenses.

- ***Debt securities*** net investment position increased by $36.1 million. Net realized and unrealized losses for the fiscal year were $23.7 million, which decreased fixed income invested balances. Contributions received are initially invested in cash and were subsequently transferred and reinvested in debt securities which increased the net investment position. In addition, in order to maintain asset allocation targets the portfolios were rebalanced twice during the fiscal year. This resulted in the sale of equity securities. The proceeds of $44.0 million were transferred and reinvested in the CMBF. Interest, dividends, and other investment income net of investment expenses of $23.2 million was reinvested in the fund and subsequently distributed to the beneficiary funds.

  The debt securities held within the Permanent Funds are invested in the CMBF managed by the WSIB. Performance of the CMBF was slightly positive for the year, and outperformed its benchmark by 40 basis points. The outperformance was due to a higher allocation to credit bonds within the CMBF resulting in a higher income return for the year than the benchmark. The portfolio has a shorter maturity than the benchmark which led to a lower negative price impact as interest rates moved higher during the year.

  In the U.S., the Federal Reserve hiked interest rates three times over the last 12 months in response to the solid rate of growth and improvements in the labor market. This led U.S. Treasury rates higher for the year with the shorter rates increasing significantly more than the longer dated rates. However, the improved economic outlook failed to further tighten credit spreads from already very low levels. Instead credit spreads widened for the year, with the majority of the widening occurring the last six months. The higher interest rates and wider credit spreads resulted in lower fixed income prices for both U.S. Treasuries and credit bonds. With the increase in rates more muted on the longer maturity bonds, the longer maturity segment of the market outperformed the intermediate maturity bonds. Short maturity bonds with their much lower price sensitivity to changes in interest rates also outperformed the intermediate maturity bonds. The extra income received from credit bonds was enough to offset the price decrease from wider credit spreads, resulting in credit bonds performing better than U.S. Treasuries with similar maturity for the year.

- ***Equity securities*** net investment position decreased by $16.9 million. Net realized and unrealized gains increased equity securities net investment position by $25.2 million. Interest, dividends, and other investment income net of investment expenses of $21.1 million was reinvested in equity securities and subsequently distributed to the beneficiary funds. To maintain asset allocation targets, the investments were rebalanced twice during the current year and the equity sale proceeds of $44.0 million were transferred and reinvested in debt securities. Realized and unrealized gains and losses in the equity portfolio decreased by $18.6 million from the previous year as a result of decreased investment returns. The current fiscal year return for equity securities was 14.1 percent compared to the prior year return of 18.5 percent.

  The equity securities held within the Permanent Funds are invested in the CMEF managed by the WSIB. The CMEF is invested in a combination of U.S. and Non-U.S. equity securities, which over the long term have provided inflation protection and the strategy aims to earn a higher dividend yield to augment distributions to the beneficiary funds. This portfolio returned 14.1 percent this fiscal year and slightly outperformed the funds benchmark which is currently a weighted blend of the Russell 3000 Index and the Morgan Stanley Capital International World ex-U.S. Investable Market Index. The portfolio's performance was not meaningfully differentiated from the benchmark return by tilting toward stocks with a higher dividend yield during the fiscal year. Broadly, investors continued to find equities an attractive investment in a low interest rate environment and the U.S. equity market performed relatively better versus the Non-U.S. equity markets.

The global economy continued to grow at a brisk pace over the last year. U.S. unemployment rate hit lows not seen since the 1960s, and higher commodity prices had an overall positive effect on emerging market countries. The strength of the economic growth was offset by an increase in geopolitical risk with heightened tension with North Korea and an escalation of the potential for a trade war between the U.S. and China centered on the use of tariffs. In Europe the growth showed signs of slowing down over the last six months on the heels of a stalemate in the UK Brexit negotiations as well as Italy's difficulty in forming a government following the election. Other factors influencing the global equity returns during the fiscal year 2018 include the recent U.S. tax cuts, the strong returns from the previous fiscal year (where the returns in the following year are typically lower), and the strong performance of U.S. information technology stocks during this period.

The WSIB approved the addition of Non-U.S. equities within the total 30 percent target allocation to equities for the five Permanent Funds. The timing of the transition will depend on several factors, including global equity market conditions, the amount of unrealized gains in the current U.S. only portfolio, the overall asset mix between equities and fixed income in the Permanent Funds portfolio, and the amount and timing of contributions from DNR. It is currently anticipated that the transition period to the global equity targets could take up to five years. The benchmark for the new portfolio will be the Morgan Stanley Capital International All Country World Investable Market Index (MSCI ACWI IMI) once the global equity asset allocation is reached. The portfolio will use over weights to high dividend yield stocks to tilt the dividend yield of the equity portfolio towards the desired range of 3.5 to 4.0 percent.

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, 2018

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	$	19,056	$	795,088	$	676,994	$	12,997	$	451,997	$	4,963	$	1,961,095	0.2%
Commingled Monthly Bond Fund		324,414		166,798,121		196,861,689		153,345,770		190,062,238		25,946,227		733,338,459	69.0%
Commingled Monthly Equity Fund		-		74,813,366		88,356,572		68,873,061		84,380,495		11,780,728		328,204,222	30.8%
Total Investments		343,470		242,406,575		285,895,255		222,231,828		274,894,730		37,731,918		1,063,503,776	100.0%
Investment Earnings Receivable		743		651,012		768,346		598,239		738,133		101,710		2,858,183	
Total Assets		344,213		243,057,587		286,663,601		222,830,067		275,632,863		37,833,628		1,066,361,959	
LIABILITIES															
Distributions and Other Payables		741		650,931		768,013		598,243		738,162		101,710		2,857,800	
NET INVESTMENT POSITION	$	343,472	$	242,406,656	$	285,895,588	$	222,231,824	$	274,894,701	$	37,731,918	$	1,063,504,159	

Permanent Funds Statement of Changes in Net Investment Position - Year Ended June 30, 2018

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	$	10,958	$	10,140,794	$	11,990,253	$	9,337,812	$	11,461,818	$	1,595,081	$	44,536,716
Net Realized Capital Gains		-		3,513,192		4,098,477		3,397,337		3,928,720		560,863		15,498,589
Unrealized Losses		(10,621)		(3,153,950)		(3,695,396)		(3,090,726)		(3,551,674)		(502,071)		(14,004,438)
Less:														
Investment Expenses		(39)		(390)		(457)		(185)		(541)		(27)		(1,639)
WSIB Operating Expenses		(66)		(44,808)		(53,034)		(41,339)		(50,677)		(7,056)		(196,980)
Net Investment Income (Loss)		232		10,454,838		12,339,843		9,602,899		11,787,646		1,646,790		45,832,248
Other Changes in Net Investment Position														
Contributions		-		4,594,000		4,292,000		772,000		6,485,000		214,000		16,357,000
Withdrawals and Distributions		(14,982)		(10,095,091)		(11,936,433)		(7,449,977)		(11,410,401)		(1,587,993)		(42,494,877)
Increase (Decrease) in Net Investment Position		(14,750)		4,953,747		4,695,410		2,924,922		6,862,245		272,797		19,694,371
Net Investment Position - June 30, 2017		358,222		237,452,909		281,200,178		219,306,902		268,032,456		37,459,121		1,043,809,788
Net Investment Position - June 30, 2018	$	343,472	$	242,406,656	$	285,895,588	$	222,231,824	$	274,894,701	$	37,731,918	$	1,063,504,159

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 Permanent Fund, Normal School Permanent Fund, Permanent Common School Fund, Scientific Permanent Fund, and State University Permanent 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 (AIS) 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 Commingled Monthly Equity Fund (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 Schedules 1 and 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.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments and are comprised of short-term investment funds which are valued at cost. Accordingly, these investments are excluded from the fair value schedule in Note 6 to the basic financial statements.

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 a proportionate interest 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 2018 was $539,835. Securities lending expenses during the fiscal year totaled $400,308.

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. The 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, 2018, 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 the Bloomberg Barclays Capital Aggregate Index. Increases in prevailing interest rates generally translate into decreases in fair values of those investments, and vice versa.

Schedules 1 and 2 provide information about the interest rate risks associated with the CMBF investments, as of June 30, 2018. 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 the cost of corporate fixed income issues 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, 2018.

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 securities held by the Permanent Funds with foreign currency exposure at June 30, 2018, consists of $65.2 million (excludes U.S. dollar denominated securities) invested in the CMEF. Foreign currency exposure for the Permanent Funds are presented in Schedule 4.

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 CMBF and CMEF 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, 2018, the fair value of the securities on loan in the CMEF and CMBF was approximately $95.8 million. The securities on loan are reported in Schedules 1 and 3 in their respective categories. At June 30, 2018, cash collateral received totaling $29.2 million was reported as a securities lending obligation, and the fair value of the reinvested cash collateral totaling $29.2 million was reported as security lending collateral in Schedules 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 Schedules 1 and 3.

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, 2018.

In Millions:	Cash Collateral	Non-Cash Collateral	Total
Mortgage Backed Securities	$ -	$ 63.7	$ 63.7
Repurchase Agreements	6.9	-	6.9
Yankee CD	9.8	-	9.8
Commercial Paper	8.6	-	8.6
US Treasuries	-	4.6	4.6
Cash Equivalents and other	3.9	-	3.9
Total Collateral Held	**$ 29.2**	**$ 68.3**	**$ 97.5**

During Fiscal Year 2018, securities lending transactions could be terminated on demand by either the Permanent Funds or the borrower. As of June 30, 2018, the collateral held had an average duration of 16.2 days and an average weighted final maturity of 79.0 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 2018, there were no significant violations of legal or contractual provisions, no failures by any borrowers to return loaned securities or to pay distributions thereon. During Fiscal Year 2018, the Permanent Funds incurred no losses 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, 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, 2018, the only derivative securities held directly by the Permanent Funds’ CMBF were collateralized mortgage obligations of $29.7 million.

Note 6. Fair Value

GASB Statement No. 72, Fair Value Measurement and Application, (Statement 72) specifies a hierarchy of valuation classifications based on whether the inputs to the valuation techniques used in each valuation classification are observable or unobservable. These classifications are summarized in three broad levels listed below:

- Level 1 – Unadjusted quoted prices for identical instruments in active markets.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in markets that are active; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs other than quoted prices that are observable for the assets or liabilities (such as exchange rates, financing terms, interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks, and default rates).
- Level 3 – Valuations derived from valuation techniques in which significant inputs or significant value drivers are unobservable.

The Permanent Fund obtains exposure to debt and equity markets through commingled investment funds managed by the WSIB. Accordingly, the securities held are measured at net asset value and not categorized by Statement 72 hierarchy of valuation classifications detailed above. Valuation policies and procedures are managed by the Investment and Financial Services unit of the WSIB, which regularly monitors fair value measurements. Staff compute month end fair values of each fund. Participants are allowed to contribute and withdraw on the monthly valuation date. The net asset value per share for the CMEF and CMBF is computed from prices obtained from the custodian bank for all of the underlying holdings. These prices are obtained from reputable pricing sources which include, but are not limited to, Thomson Reuters, Bloomberg Barclays, and Interactive Data Corporation. The custodian bank performs the following tolerance and review checks on the pricing data on a daily basis:

Publicly Traded Equity

- Comparison of primary pricing sources to a secondary source with a zero tolerance threshold.
- Researches price changes from the previous day of 10 percent or greater with verification to secondary sources.
- Researches price changes from the previous day in excess of 20 percent by reviewing market related company news and corporate actions.
- Prices unchanged in excess of five days requires verification that there is no market status change.

Fixed Income

- Researches price changes from the previous day of 2 to 5 percent or greater with corroborating evidence required from the primary pricing vendor.
- Prices unchanged in excess of ten days are sent to the appropriate vendor for review and verification.

The following table presents fair value measurements as of June 30, 2018:

	Fair Value
INVESTMENTS - PERMANENT FUNDS	
INVESTMENTS MEASURED AT NET ASSET VALUE	
Commingled Monthly Bond Fund	$ 733,338,459
Commingled Monthly Equity Fund	328,204,222
Total Investments at Net Asset Value	1,061,542,681
Total Investments Measured at Fair Value	$ 1,061,542,681

Commingled Investment Funds (Investments Measured at Net Asset value)

The CMBF and CMEF are invested in publicly traded debt and equity securities and are actively managed to preserve the fund's capital, consistent with the desire to emphasize high current yield to maturity opportunities and to achieve the highest return possible at a prudent level of risk. The return benchmark for the CMEF and CMBF is the Morgan Stanley Capital International All Country World Investable Market Index (MSCI ACWI IMI) and the Bloomberg Barclays Capital Aggregate Index, respectively. With the exception of American Indian Endowment Scholarship Fund, no other permanent fund may withdraw other than realized income from the fund. Legal requirements for the state of Washington require corpus balances be preserved. The AIS may withdraw funds on each monthly valuation date. Cash basis income is distributed to all beneficiaries monthly.

Note 7. 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 Permanent Funds' investments are to be managed to preserve capital consistent with the desire to emphasize high current yield to maturity opportunities and to achieve the highest return possible at a prudent level of risk.

The strategic objectives include:

- Safety of principal
- Current income
- Long-term stability of purchasing power
- 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.

Investment 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 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.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 Bloomberg 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 Mortgage Backed Securities
- Convertible Securities
- 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.

Target allocations for the Fixed Income Sectors:	
Government Securities	10% – 50%
Credit Bonds	10% – 50%
Asset Backed Securities	0% – 10%
Commercial Mortgage Backed Securities	0% – 10%
Mortgage Backed Securities	5% – 40%

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 Permanent Fund, Normal School Permanent Fund, Permanent Common School Fund, Scientific Permanent Fund, and State University Permanent Fund have the following asset allocation policies and benchmarks. The investment policy was changed in the previous year to allow for equity investments in international markets. It is anticipated that the rebalancing of the equity portfolio could take up to five years.

Transition Period of up to 5 years

Asset Class	Target	Range
Unrestricted Fixed Income	70%	66%-100%
U.S. Equity	18%	0%-34%
Non-U.S. Equity	12%	0%-34%

Post-Transition

Asset Class	Target	Range
Unrestricted Fixed Income	70%	66%-100%
Global Equity	30%	0%-34%

The benchmark for the above funds is a combination of the Bloomberg Barclays Capital Aggregate Index and the Morgan Stanley Capital International All Country World Investable Market Index (MSCI ACWI IMI) in the weighted percentage allocations that represent the fund's target allocation upon full transition to a global equity strategy.

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

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	$ 71,072,848	$ 31,820	$ 46,953,168	$ 24,087,860	$ -	4.7	Schedule 2
Corporate Bonds	294,930,075	24,869,600	109,802,656	80,702,180	79,555,639	6.7	Schedule 2
U.S. Government and Agency Securities	279,102,340	24,812,886	163,646,870	38,588,826	52,053,758	6.2	AAA
Foreign Government and Agency Securities	53,427,650	4,936,900	34,374,600	14,116,150	-	3.9	Schedule 2
Total Debt Securities	698,532,913	$ 54,651,206	$ 354,777,294	$ 157,495,016	$ 131,609,397	6.1*	
Investments Not Required to be Categorized:							
Cash and Cash Equivalents	4,890,096						
Collateral Held Under Securities Lending Agreements	19,065,150						
Investment Earnings Receivable	4,536,823						
Receivables for Investments Sold	27,000,000						
Total Commingled Bond Fund Assets	754,024,982						
Distributions and other payables	(1,621,373)						
Obligations Under Securities Lending Agreements	(19,065,150)						
CMBF Net Investment Position - June 30, 2018	$ 733,338,459						

* Duration excludes cash balances

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

Moody's Credit Rating	Mortgage and Other Asset Backed Securities	Corporate Bonds	Foreign Government and Agency Securities
Aaa	$ 71,070,704	$ 16,664,060	$ 9,608,050
Aa1	-	-	4,903,700
Aa2	-	4,688,550	14,253,750
Aa3	-	34,767,900	10,008,000
A1	-	49,486,600	14,654,150
A2	2,144	59,531,130	-
A3	-	78,956,180	-
Baa1	-	22,023,805	-
Baa2	-	28,811,850	-
Baa3	-	-	-
Ba1 or Lower	-	-	-
Total	$ 71,072,848	$ 294,930,075	$ 53,427,650

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

Classification	
Cash and Cash Equivalents	$ 3,748,464
Common Stock	305,541,978
Real Estate Investment Trusts	18,045,691
Total Investments	327,336,133
Depository Receipts and Other Miscellaneous	3,182,043
Income and Other Receivables	680,021
Collateral Held Under Securities Lending Agreements	10,170,206
Distributions and Other Payables	(2,993,975)
Obligations Under Securities Lending Agreements	(10,170,206)
CMEF Net Investment Position June 30, 2018	**$ 328,204,222**

Schedule 4: Commingled Monthly Equity Fund (CMEF) Schedule of Foreign Currency

Foreign Currency Denomination	Investment Type In U.S. Dollar Equivalent			
	Cash and Cash Equivalents	Equity Securities	Total	Percent of Total CMEF Funds Investments
AUSTRALIAN DOLLAR	$ 7,521	$ 7,881,198	$ 7,888,719	2.4%
CANADIAN DOLLAR	13,296	11,280,899	11,294,195	3.4%
EURO CURRENCY	344,792	14,525,706	14,870,498	4.5%
POUND STERLING	152,562	17,012,987	17,165,549	5.2%
HONG KONG DOLLAR	3,056	2,226,456	2,229,512	0.7%
JAPANESE YEN	892,542	1,058,221	1,950,763	0.6%
NORWEGIAN KRONE	945	2,341,369	2,342,314	0.7%
NEW ZEALAND DOLLAR	269	1,200,597	1,200,866	0.4%
SWEDISH KRONA	6,442	3,193,261	3,199,703	0.9%
SINGAPORE DOLLAR	442,057	1,397,304	1,839,361	0.5%
OTHER (MISC)	170,906	1,038,928	1,209,834	0.4%
Total Foreign Currency Exposure	$ 2,034,388	$ 63,156,926	$ 65,191,314	19.7%

CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Members of the Washington State Investment Board
Olympia, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Permanent Funds as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Permanent Funds' financial statements, and have issued our report thereon dated September 24, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Permanent Funds' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Permanent Funds' internal control. Accordingly, we do not express an opinion on the effectiveness of the Permanent Funds' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during

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our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Permanent Funds' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Permanent Funds' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Permanent Funds' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Boise, Idaho
September 24, 2018

GUARANTEED EDUCATION TUITION FUND

CPAs & BUSINESS ADVISORS

Independent Auditor's Report

To the Members of the Washington State Investment Board
Olympia, Washington

Report on the Financial Statements

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, 2018, 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 of America; 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.

Auditors' 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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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.

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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 investment position of the Guaranteed Education Tuition Fund as of June 30, 2018, and the changes in net investment position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic 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 of America, 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2018 on our consideration of the Guaranteed Education Tuition Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Guaranteed Education Tuition Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Guaranteed Education Tuition Fund's internal control over financial reporting and compliance.

Eide Bailly LLP

Boise, Idaho
September 24, 2018

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, assets, and liabilities of the GET Fund, as of June 30, 2018. 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, 2018. The following table compares the net investment position of each major investment classification at June 30, 2018, with those at June 30, 2017. In addition, they summarize the changes in each major investment classification for the fiscal year ended June 30, 2018 and 2017, as well as a comparison of investment performance, the results of financial operations, and other relevant information between the two reporting periods. 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.

As shown in the following table, the net investment position of the GET Fund decreased by $72.9 million during the fiscal year ended June 30, 2018. Net withdrawals by the GET Fund participants during the year decreased net investment position by $207.2 million. These withdrawals were offset by a net investment income of $134.3 million within the various asset classes.

Net investment income was $87.2 million lower than the previous fiscal year almost entirely due to a decrease in realized and unrealized gains in both the debt and equity security portfolios. The current fiscal year return for the GET Fund was 6.4 percent compared to the prior fiscal year return of 10.9 percent. The decrease in returns resulted in a decrease in realized and unrealized gains from the prior fiscal year of $86.9 million.

Withdrawals from the GET Fund during the current year continued at a steady pace, decreasing approximately 6 percent from the prior year. In April 2018, the GET Fund liquidated positions within both the debt and equity portfolios and the sale proceeds were transferred and reinvested in cash. This was done in anticipation of participant roll overs to a newly created IRS Section 529 Qualified Tuition Plan which would require liquidation of GET Fund balances invested by the WSIB. Legislation enacted during the current fiscal year allows certain existing GET participants to roll their entire account balance into the new DreamAhead College Investment Plan. The roll over window began June 15, 2018 and is open until September 15, 2018. Due to the unpredictability of the potential withdrawals, the asset allocation policy was changed to provide greater flexibility during this transition window and cash balances increased substantially in anticipation of potential withdrawals from the existing invested balances. See Note 7 of these financial statements.

GUARANTEED EDUCATION TUITION FUND

Summarized Change in Net Investment Position and Returns by Asset Class

	Fiscal Year End June 30, 2018				Fiscal Year End June 30, 2017				Year Over Year Change	
	Cash and Cash Equivalents	Debt Securities (*)	Equity Securities (*)	Total	Cash and Cash Equivalents	Debt Securities (*)	Equity Securities (*)	Total	Increase (Decrease)	Percent Change
Beginning Net Investment Position (**)	$ 102,523,463	$ 834,350,132	$ 1,230,999,358	$ 2,167,872,953	$ 109,049,854	$ 926,072,537	$ 1,132,004,262	$ 2,167,126,653	$ 746,300	0.0%
Investment Income:										
Interest, Dividends, and Other Investment Income	4,848,571	1,434,214	26,270,998	32,553,783	679,792	2,014,683	29,433,936	32,128,411	425,372	1.3%
Realized and Unrealized Gains (Losses)	-	(5,355,300)	109,224,223	103,868,923	-	7,771,038	182,983,263	190,754,301	(86,885,378)	-45.5%
Less: Investment Expenses	(980,343)	(35,058)	(1,095,538)	(2,110,939)	(578,419)	(8,126)	(813,421)	(1,399,966)	710,973	50.8%
Net Investment Income (Loss)	3,868,228	(3,956,144)	134,399,683	134,311,767	101,373	9,777,595	211,603,778	221,482,746	(87,170,979)	-39.4%
Net Withdrawals	(207,237,669)	-	-	(207,237,669)	(220,736,446)	-	-	(220,736,446)	(13,498,777)	-6.1%
Transfers Between Asset Classes	1,020,608,849	(358,027,652)	(662,581,197)	-	214,108,682	(101,500,000)	(112,608,682)	-	-	NA
Ending Net Investment Position (**)	**$ 919,762,871**	**$ 472,366,336**	**$ 702,817,844**	**$ 2,094,947,051**	**$ 102,523,463**	**$ 834,350,132**	**$ 1,230,999,358**	**$ 2,167,872,953**	**$ (72,925,902)**	**-3.4%**
Increase (Decrease) in Net Investment Position	**$ 817,239,408**	**$ (361,983,796)**	**$ (528,181,514)**	**$ (72,925,902)**						
Percentage Change in Net Investment Position	**797.1%**	**-43.4%**	**-42.9%**	**-3.4%**						
One Year Time Weighted Return - June 30, 2018	**1.2%**	**-0.5%**	**11.4%**	**6.4%**						
One Year Time Weighted Return - June 30, 2017	**0.5%**	**1.2%**	**19.6%**	**10.9%**						

(*) Includes cash balances used for trading purposes
(**) Net investment position includes accrued income, accrued expenses, and pending trades within each asset class

The following summarizes the changes in net investment position for each main investment category in the previous table:

- ***Cash and cash equivalents*** net investment position increased by $817.2 million, mainly from the rebalancing of sale proceeds between asset classes to fund an increase in the cash asset allocation target. This occurred to increase liquidity to fund roll over requests to the new DreamAhead College Investment Program. Interest income received and reinvested within this asset class increased by $4.2 million over the prior year due to increasing interest rates and significantly higher invested cash balances. The Federal Reserve increased the target range for the federal funds rate three times during this fiscal year for a total of 75 basis points contributing to increased cash returns over the prior fiscal year. Cash held within the debt and equity security portfolios is excluded from this analysis and balance.

- ***Debt securities*** net investment position decreased by $362.0 million. The majority of this decline was from liquidation of debt securities of $358.0 million. Sale proceeds were transferred to cash in order to meet asset allocation targets and fund withdrawal requests by the GET program. Net realized and unrealized losses decreased this asset class by $5.4 million. The remaining increase was due to reinvestment of net investment income within the fixed income portfolio.

  The GET Fund invests in a commingled investment fund, the Daily Valued Bond Fund, managed by the WSIB. Accordingly, interest income is retained and reinvested within the commingled fund and is reflected in net realized and unrealized gains and losses. Coupon payments reinvested within the Daily Valued Bond Fund were not sufficient to offset price declines within the portfolio, resulting in unrealized losses within the GET Funds debt securities. See Daily Valued Fund audited financials for additional information on the Bond Fund.

In the U.S., the Federal Reserve hiked interest rates three times over the last 12 months in response to the solid rate of growth and improvements in the labor market. This led U.S. Treasury rates higher for the year with the shorter rates increasing significantly more than the longer dated rates. However, the improved economic outlook failed to further tighten credit spreads from already very low levels. Instead credit spreads widened for the year, with the majority of the widening occurring the last six months. The higher interest rates and wider credit spreads resulted in lower fixed income prices for both U.S. Treasuries and credit bonds. With the increase in rates more muted on the longer maturity bonds, the longer maturity segment of the market outperformed the intermediate maturity bonds. Short maturity bonds with their much lower price sensitivity to changes in interest rates also outperformed the intermediate maturity bonds. The extra income received from credit bonds was enough to offset the price decrease from wider credit spreads, resulting in credit bonds performing better than U.S. Treasuries with similar maturity for the year. Despite interest rate increases during the year, interest income within the fixed income portfolio decreased $0.6 million from the prior fiscal year. This was due to a reduction of the portfolio's net investment position of 43.4 percent in large part from withdrawals and asset rebalancing transfers. The return of the portfolio for the current fiscal year end was (0.5) percent which is a substantial decrease over the prior fiscal year end return of 1.2 percent as a result of a rising interest rate environments. This resulted in a decrease of net realized and unrealized gains and losses from the previous fiscal year of $13.1 million in the debt portfolio.

The GET liquidated all U.S. Treasury securities during March 2018 and the proceeds were transferred to the cash portfolio as part of an overall asset allocation change. This consisted of securities with an average maturity of roughly five years. With interest rates increasing up until March 2018, the U.S. Treasury securities returned a negative (1.9) percent for the period, and as such had a negative return impact on the overall GET Fixed Income portfolio.

- ***Equity securities*** net investment position decreased by $528.2 million. This decline was from liquidation of equity securities of $662.6 million. Sale proceeds were transferred to cash in order to meet asset allocation targets and fund withdrawal requests by the GET program. Realized and unrealized gains increased equity securities by $109.2 million. The remaining increase was the result of net investment income reinvested in this asset class.

  Dividend and other investment income in the equity portfolio decreased by $3.2 million over the prior fiscal year mainly from a reduction of invested balances from the previous year due to asset rebalancing transfers reinvested in cash. The equity portfolio returned 11.4 percent during the current fiscal year compared to a prior year return of 19.6 percent. Accordingly, net realized and unrealized gains within the portfolio decreased $73.8 million due to a significant decrease in investment returns. The net investment position and performance of equity securities includes $7.1 million of cash and cash equivalents used for trading purposes.

  The global equity market returns during fiscal year 2018 remained strong, but were noticeably lower than those of the prior fiscal year. Significant decreases in year over year returns were more pronounced in Non-U.S. markets. The GET equity portfolio is managed to passively track the broad global stock market as defined by the Morgan Stanley Capital International All Country World Investable Market Index (MSCI ACWI IMI). Overall, the U.S. equity market returned 15.0 percent and the Non-U.S. markets returned 7.8 percent as measured by MSCI indices, which are broad barometers of overall market returns. The prior year index return for the U.S. and Non-U.S. markets were 18.4 percent and 20.4 percent, respectively which demonstrate noticeable declines in each. The U.S. market performance exceeded that of the Non-U.S. markets in the current fiscal year. Also, U.S. small cap stocks generally outperformed large cap stocks, as well as the broader market.

The global economy continued to grow at a brisk pace over the last year. U.S. unemployment rate hit lows not seen since the 1960s, and higher commodity prices had an overall positive effect on emerging market countries. The strength of the economic growth was offset by an increase in geopolitical risk with heightened tension with North Korea and an escalation of the potential for a trade war between the U.S. and China centered on the use of tariffs. In Europe the growth showed signs of slowing down over the last six months on the heels of a stalemate in the UK Brexit negotiations as well as Italy's difficulty in forming a government following the election. Other factors influencing the global equity returns during the fiscal year 2018 include the recent U.S. tax cuts, the strong returns from the previous fiscal year (where the returns in the following year are typically lower), and the strong performance of U.S. information technology stocks during this period.

As shown in the following table, securities on loan decreased by $47.2 million and collateral held under securities lending agreements decreased accordingly. The demand to borrow U.S. equities held in the GET portfolio was lower this fiscal year due to strong hedging activity in certain sectors such as consumer discretionary, technology, and healthcare in the U.S. The demand to borrow Non-U.S. equities also declined due to a soft demand in many global sectors and continued market uncertainty. Cash collateral held under securities lending agreements are reported as an asset and a liability in the accompanying Statement of Net Investment Position.

	June 30, 2018	June 30, 2017	Increase (Decrease)	Percentage Change
Securities on Loan Fiscal Year End	$ 38,526,115	$ 85,689,179	$ (47,163,064)	-55.0%
Cash Collateral Held Under Securities Lending Agreements	22,426,594	48,285,666	(25,859,072)	
Non-Cash Collateral Held Under Securities Lending Agreements	16,840,741	39,559,413	(22,718,672)	
Total Collateral Held	**$ 39,267,335**	**$ 87,845,079**	**$ (48,577,744)**	**-55.3%**

The WSIB staff rebalances the GET Fund's 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 net investment 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, 2018

See notes to financial statements

		Percent of Total
ASSETS		
Investments:		
CASH AND CASH EQUIVALENTS	$ 925,502,837	44.2%
DEBT SECURITIES		
Commingled Intermediate Credit	472,366,335	
Total Debt Securities	472,366,335	22.6%
EQUITY SECURITIES		
Common and Preferred Stock	662,839,683	
Real Estate Investment Trusts	21,843,202	
Depository Receipts and Other	10,129,610	
Total Equity Securities	694,812,495	33.2%
Total Investments	2,092,681,667	100.0%
Collateral Held Under Securities Lending Agreements	22,426,594	
Pending Trades and Other Investment Receivables	4,714,101	
Total Assets	2,119,822,362	
LIABILITIES		
Pending Trades and Other Payables	2,448,717	
Obligations Under Securities Lending Agreements	22,426,594	
Total Liabilities	24,875,311	
NET INVESTMENT POSITION	$ 2,094,947,051	

GET Fund Statement of Changes in Net Investment Position - Year Ended June 30, 2018

See notes to financial statements

Net Investment Income	
Investment Income	
Interest, Dividends and Other Investment Income	$ 31,655,223
Securities Lending Income	898,560
Net Realized Capital Gains	247,964,016
Unrealized Losses	(144,095,093)
Less:	
Securities Lending Rebates and Fees	(595,711)
Investment Expenses	(1,109,345)
WSIB Operating Expenses	(405,883)
Net Investment Income	134,311,767
Net Amount Withdrawn	(207,237,669)
Decrease in Net Investment Position	(72,925,902)
Net Investment Position - June 30, 2017	2,167,872,953
Net Investment Position - June 30, 2018	$ 2,094,947,051

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.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments comprised of foreign currencies and short-term investment funds. The short-term investment funds are valued at cost. Accordingly, these investments are excluded from the fair value schedule in Note 6 to the basic financial statements.

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. Securities lending income received by the GET Fund during Fiscal Year 2018 was $0.9 million. Securities lending expenses during the fiscal year totaled $(0.6) million.

Contributions and Withdrawals

Contributions and withdrawals are netted and are recorded when received or paid.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S., 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. The 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, 2018, 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 shall not exceed plus or minus 15 percent of the Bloomberg Barclays U.S. Intermediate Credit Index. Increases in prevailing interest rates generally translate into decreases in fair values of fixed income investments.

Schedules 1 and 2 provide information about the interest rate risks associated with the GET Fund investments, as of June 30, 2018. 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, 2018, 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, 2018.

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 Fund manages 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 Fund's 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, 2018, was approximately $38.5 million. The securities on loan remain in the Statement of Net Investment Position in their respective categories. At June 30, 2018, cash collateral received totaling $22.4 million is reported as a securities lending obligation, and the fair value of the reinvested cash collateral totaling $22.4 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, 2018, was $39.3 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 table summarizes the securities held from reinvestment of cash collateral and securities received as collateral at June 30, 2018.

In Millions:	Cash Collateral	Non Cash Collateral	Total
Mortgage Backed Securities	$ -	$ 1.5	$ 1.5
Repurchase Agreements	5.3	-	5.3
Yankee CD	7.6	-	7.6
Commercial Paper	6.6	-	6.6
U.S. Treasuries	-	15.4	15.4
Cash Equivalents and Other	2.9	-	2.9
Total Collateral Held	**$ 22.4**	**$ 16.9**	**$ 39.3**

During Fiscal Year 2018, securities lending transactions could be terminated on demand by either the GET Fund or the borrower. As of June 30, 2018, the cash collateral held had an average duration of 16.2 days and an average weighted final maturity of 79.0 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 2018, there were no significant violations of legal or contractual provisions and no failures by any borrowers to return loaned securities or to pay distributions thereon. Further, during Fiscal Year 2018 the GET Fund incurred no losses 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, 2018, 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, 2018, 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, 2018, 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.

		Changes in Fair Value - Included in Investment Income	Fair Value at June 30, 2018 - Investment Derivative	
	Classification	Amount	Amount	Notional
FUTURES CONTRACTS:				
Equity Index Futures	Investment	$ 1,319,315	$ (186,770)	2,950

Note 6. Fair Value

GASB Statement No. 72, Fair Value Measurement and Application, (Statement 72) specifies a hierarchy of valuation classifications based on whether the inputs to the valuation techniques used in each valuation classification are observable or unobservable. These classifications are summarized in three broad levels listed below:

- Level 1 – Unadjusted quoted prices for identical instruments in active markets.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either, directly or indirectly, including quoted prices for similar assets or liabilities in markets that are active; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs other than quoted prices that are observable for the assets or liabilities (such as exchange rates, financing terms, interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks, and default rates).
- Level 3 – Valuations derived from valuation techniques in which significant inputs or significant value drivers are unobservable.

Inputs used to measure fair value might fall in different levels of the fair value hierarchy; in which case, the GET Fund defaults to the lowest level input that is significant to the fair value measurement of each investment, with Level 3 being the lowest level. The determination of fair value of an investment within the hierarchy of classifications above is not necessarily an indication of the risk or liquidity associated with the investments. In determining the appropriate levels, the GET Fund performed a detailed analysis of the assets and liabilities that are subject to Statement 72. Valuation policies and procedures are managed by the Investment and Financial Services unit of the WSIB, which regularly monitors fair value measurements. Fair value measurements are prepared and reviewed monthly, and any third party valuations are reviewed for reasonableness and compliance with relevant accounting standards.

The GET Funds receive fair value prices for publicly traded securities directly from their custodian bank. These prices are obtained from reputable pricing sources which include but are not limited to Thomson Reuters, Bloomberg, and Interactive Data Corporation. The custodian bank performs the following tolerance and review checks on the pricing data on a daily basis:

Publicly Traded Equity

- Comparison of primary pricing sources to a secondary source with a zero tolerance threshold.
- Researches price changes from the previous day of 10 percent or greater with verification to secondary sources.
- Researches price changes from the previous day in excess of 20 percent by reviewing market related company news and corporate actions.
- Prices unchanged in excess of five days requires verification that there is no market status change.

Fixed Income

- Researches price changes from the previous day of 2 to 5 percent or greater with corroborating evidence required from the primary pricing vendor.
- Prices unchanged in excess of ten days are sent to the appropriate vendor for review and verification.

The following table presents fair value measurements as of June 30, 2018:

		Fair Value Measurements Using:		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
INVESTMENTS				
EQUITY SECURITIES	$ 694,812,495	$ 692,313,643	$ 1,864,838	$ 634,014
Total Investments By Fair Value Level	694,812,495	692,313,643	1,864,838	634,014
INVESTMENTS MEASURED AT NET ASSET VALUE				
Commingled Intermediate Credit	472,366,335			
Total Investments Measured at Fair Value	$ 1,167,178,830			
OTHER ASSETS (LIABILITIES) AT FAIR VALUE				
Collateral Held Under Securities Lending Agreements	$ 22,426,594	$ -	$ 22,426,594	$ -
Margin Variation Payable- Futures Contracts	(186,770)	(186,770)	-	-
Obligations Under Securities Lending Agreements	(22,426,594)	-	(22,426,594)	-
Total Other Assets (Liabilities) Measured at Fair Value	$ (186,770)	$ (186,770)	$ -	$ -

Debt and Equity Securities (Levels 1, 2, and 3)

Investments classified as level 1 in the above table were exchange traded equity securities, whose values are based on published market prices and quotations from national security exchanges, as of the last business day of each reporting period end.

Investments classified as level 2 in the above table were primarily comprised of publicly traded debt securities and exchange traded stocks traded in inactive markets. Publicly traded debt securities are sourced from reputable pricing vendors, using models that are market-based measurements representing their good faith opinion as to the exit value of a security, in an orderly transaction under current market conditions. Such models take into account quoted prices, nominal yield spreads, benchmark yield curves, prepayment speeds, and other market corroborated inputs.

Investments classified as level 3 in the above table were publicly traded equity securities that have non-current, or “stale” values and are included in the table at the last traded price. The stale pricing occurred due to trading suspensions, delisting from an active exchange, or lack of investor demand. The current market values of these securities are unknown.

Commingled Intermediate Credit (Investments Measured at Net Asset Value)

The GET Fund invests in the Bond Fund managed by the WSIB which is a commingled investment fund. Investments in this fund are not available to the general public. It is an open-ended fund which issues or reduces shares for purchases and redemptions. The Bond Fund staff determines a net asset value per share by obtaining fair values of the underlying holdings, using reputable pricing sources on a daily basis. The holdings within this fund are publicly traded debt securities and are actively managed to meet or exceed the return of the Bloomberg Barclays U.S. Intermediate Credit Index. The GET Fund may redeem some or all of their holdings daily without restriction (see the Daily Valued Funds audited financials issued by the WSIB for further information).

Other Assets and Liabilities

Collateral held and obligations under securities lending agreements are detailed in Note 4 to the basic financial statements. Cash collateral securities (and the offsetting obligation) are valued by the GET Fund lending agent and sourced from reputable pricing vendors, using proprietary models that are market-based measurements representing their good faith opinion as to the exit value of a security, in an orderly transaction under current market conditions. Such models take into account quoted prices, nominal yield spreads, benchmark yield curves, prepayment speeds, and other market corroborated inputs.

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 margin variation represents the current gain or loss remaining to be settled from the prior day. The custodian provides quoted market prices for these securities from a reputable pricing vendor.

Note 7. 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.
- 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 GET Fund has both a long-term absolute goal and several relative performance objectives:

- Achieve or exceed a 3.25 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 public equity investments will be to passively track the broad global stock market as defined by the MSCI All Country World Investable Market Index (MSCI ACWI IMI).
- 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 or common stock holding's cost shall exceed 3 percent of the GET Fund's fair value at the time of purchase, nor shall its fair value exceed 6 percent of the GET Fund's fair value at any time per RCW 43.33A.140.
- Diversification of the assets at a prudent level to moderate fluctuations in the fair value of the program.

Permissible Investments

- Publicly Traded Equity Investments
- 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

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 four 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.

Engrossed Senate Bill 6087 passed the Legislature and became effective on April 15, 2018. The bill created an incentive for existing GET unit holders to transfer to Washington's 529 College Savings Plan (Savings Plan). The bill established a 3-month transition window and the potential outflows could have major implications for liquidity and asset allocation in managing the GET Fund assets during the transition period. Greater flexibility is required to manage the asset allocation to meet these liquidity needs while also maintaining market exposure for assets remaining in the GET Fund during and after the transition window. Accordingly, asset allocation targets have been suspended until the transition window closes allowing investment staff to balance both the liquidity needs and long-term returns of the GET Fund.

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

Asset Class	Target	Range
Global Equities	60%	55%-65%
Fixed Income	40%	35%-45%
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
Commingled Intermediate Credit	$ 472,366,335	$ 51,104,456	$ 238,614,564	$ 182,647,315	$ -	4.4	Schedule 2
Investments Not Required to be Categorized							
Equity Securities	694,812,495						
Cash and Cash Equivalents	925,502,837						
Total Investments Not Categorized	1,620,315,332						
Total Investments	$ 2,092,681,667						

* Duration excludes cash and cash equivalents

Schedule 2: Additional Credit Rating Disclosures

Moody's Equivalent Credit Rating	Commingled Intermediate Credit Total Fair Value
Aaa	$ 22,288,763
Aa1	7,131,796
Aa2	14,149,078
Aa3	39,952,213
A1	93,857,144
A2	46,625,712
A3	60,971,346
Baa1	58,944,684
Baa2	52,247,580
Baa3	64,531,252
Ba1 or Lower	11,666,767
Total Fair Value	$ 472,366,335

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	$ 149,115	$ 15,702,304	$ 15,851,419	0.8%
BRAZILIAN REAL	149,567	4,396,585	4,546,152	0.2%
CANADIAN DOLLAR	121,606	21,905,219	22,026,825	1.1%
SWISS FRANC	22,417	16,286,185	16,308,602	0.8%
DANISH KRONE	11,279	3,772,449	3,783,728	0.2%
EURO CURRENCY	156,546	68,939,989	69,096,535	3.2%
POUND STERLING	414,932	41,072,527	41,487,459	2.0%
HONG KONG DOLLAR	297,498	25,591,626	25,889,124	1.2%
INDIAN RUPEE	513,389	7,520,583	8,033,972	0.4%
JAPANESE YEN	991,097	57,284,435	58,275,532	2.7%
SOUTH KOREAN WON	17,331	12,037,208	12,054,539	0.6%
SWEDISH KRONA	11,415	6,871,005	6,882,420	0.3%
SINGAPORE DOLLAR	61,289	3,276,284	3,337,573	0.2%
NEW TAIWAN DOLLAR	390,646	9,891,262	10,281,908	0.5%
SOUTH AFRICAN RAND	28,511	5,311,245	5,339,756	0.3%
OTHER - MISCELLANEOUS	1,374,503	17,297,911	18,672,414	0.9%
	$ 4,711,141	$ 317,156,817	$ 321,867,958	15.4%

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Members of the Washington State Investment Board
Olympia, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Guaranteed Education Tuition Fund as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Guaranteed Education Tuition Fund's financial statements, and have issued our report thereon dated September 24, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Guaranteed Education Tuition Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Guaranteed Education Tuition Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Guaranteed Education Tuition Fund's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during

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our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Guaranteed Education Tuition Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

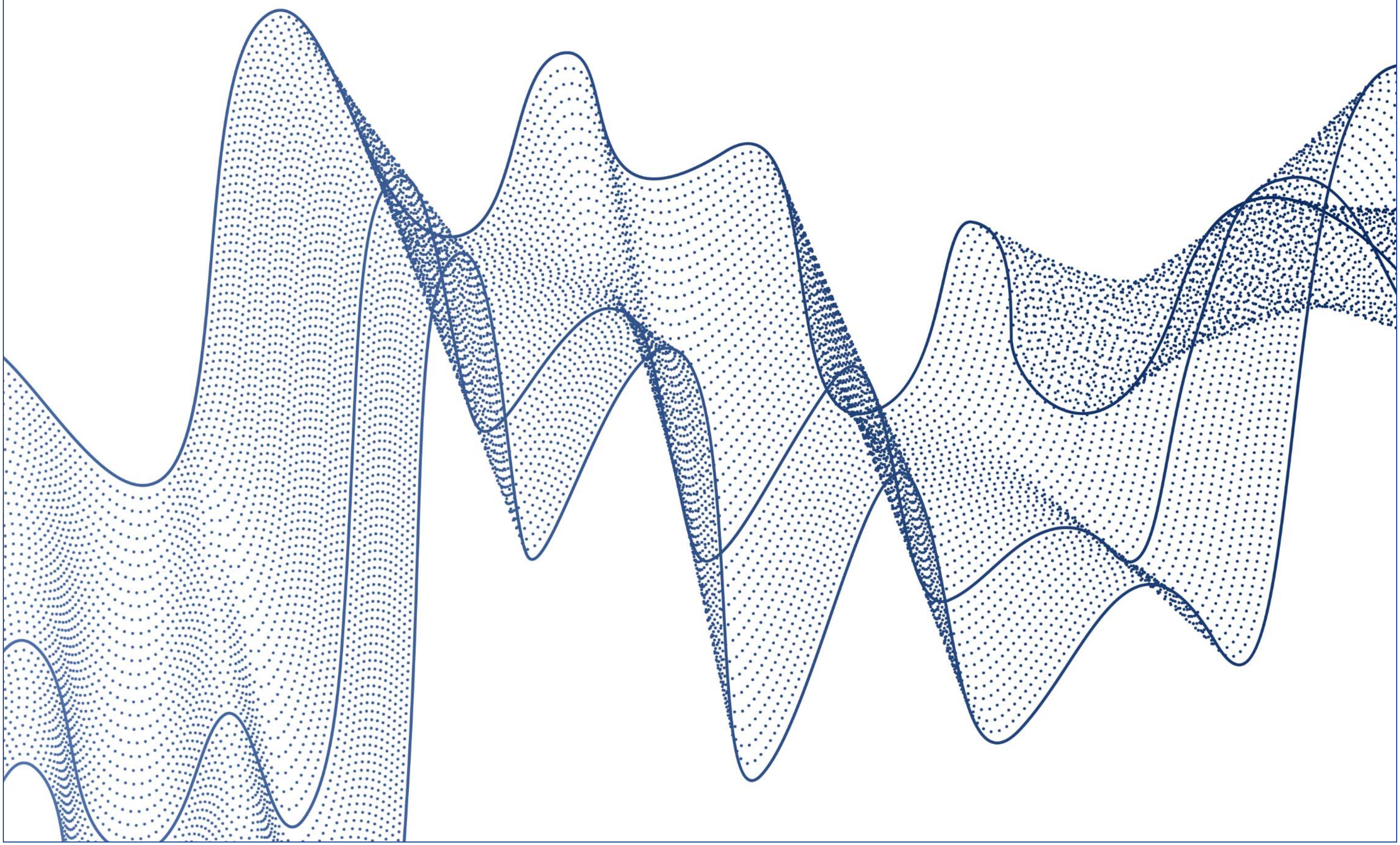
Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Guaranteed Education Tuition Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Guaranteed Education Tuition Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Boise, Idaho
September 24, 2018

DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST FUND



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Independent Auditor's Report

To the Members of the Washington State Investment Board
Olympia, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the Developmental Disabilities Endowment Trust Fund (which is comprised of the Developmental Disabilities Endowment Trust Fund State and Developmental Disabilities Endowment Trust Fund Private) of the State of Washington as managed by the Washington State Investment Board (the Developmental Disabilities Endowment Trust Fund), which comprise the statement of net investment position as of June 30, 2018, 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 of America; 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.

Auditors' 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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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

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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 investment position of the Developmental Disabilities Endowment Trust Fund as of June 30, 2018, and the changes in net investment position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic 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 of America, 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2018 on our consideration of the Developmental Disabilities Endowment Trust Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Developmental Disabilities Endowment Trust Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Developmental Disabilities Endowment Trust Fund's internal control over financial reporting and compliance.

Eide Bailly LLP

Boise, Idaho
September 24, 2018

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 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, 2018. 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, 2018. The following table compares the net investment position of each major investment classification at June 30, 2018, with those at June 30, 2017. In addition, they summarize the changes in each major investment classification for the fiscal year ended June 30, 2018 and 2017, as well as a comparison of investment performance, the results of financial operations, and other relevant information between the two reporting periods. 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.

As shown in the following table, the net investment position of the DDEF increased by $4.8 million for the fiscal year ended June 30, 2018. Net contributions by the DDEF participants during the year increased net investment position by $0.5 million and were invested in balanced funds. Net realized and unrealized gains increased net investment position by $3.3 million. The remaining increase was attributable to net investment income reinvested within the fund.

Net investment income decreased by $0.6 million during the current fiscal year as compared to the prior year, entirely due to the decreases in net realized and unrealized gains. This was a result of a decrease in investment returns over the prior fiscal year in all asset classes except cash and cash equivalent securities. The current fiscal year return for the DDEF was 7.2 percent compared to the prior year return of 9.3 percent.

Contributions decreased by $1.5 million during the current fiscal year compared to the previous fiscal year. The DDEF has been experiencing steady growth in the number of participants in the program, however, the cash flows can increase or decrease from year to year as individual participant behavior is hard to predict.

Summarized Change in Net Investment Position and Returns by Asset Class												
	Fiscal Year End June 30, 2018					Fiscal Year End June 30, 2017					Year Over Year Change	
	Cash and Cash Equivalents (*)	Debt Securities	Equity Securities (*)	Balanced Funds	Total	Cash and Cash Equivalents	Debt Securities	Equity Securities	Balanced Funds	Total	Increase (Decrease)	Percent Change
Beginning Net Investment Position	$ 30,258	$ 10,208,516	$ 2,327,044	$ 47,429,973	$ 59,995,791	$ 30,636	$ 10,019,190	$ 1,948,348	$ 41,030,880	$ 53,029,054	$ 6,966,737	13.1%
Investment Income:												
Interest, Dividends, and Other Investment Income	482	-	1,267	1,073,614	1,075,363	421	-	1,209	919,803	921,433	153,930	16.7%
Realized and Unrealized Gains (Losses)	-	(28,230)	264,118	3,015,495	3,251,383	-	189,326	377,519	3,480,227	4,047,072	(795,689)	-19.7%
Less: Investment Expenses	(71)	(394)	(598)	(2,781)	(3,844)	(116)	(383)	(852)	(2,555)	(3,906)	(62)	-1.6%
Net Investment Income (Loss)	411	(28,624)	264,787	4,086,328	4,322,902	305	188,943	377,876	4,397,475	4,964,599	(641,697)	-12.9%
Net Amount Contributed	502,375	-	-	-	502,375	2,002,138	-	-	-	2,002,138	(1,499,763)	-74.9%
Transfers to Other Asset Classes	(503,579)	300,394	(299,372)	502,557	-	(2,002,821)	383	820	2,001,618	-	NA	NA
Ending Net Investment Position	**$ 29,465**	**$ 10,480,286**	**$ 2,292,459**	**$ 52,018,858**	**$ 64,821,068**	**$ 30,258**	**$ 10,208,516**	**$ 2,327,044**	**$ 47,429,973**	**$ 59,995,791**	**$ 4,825,277**	**8.0%**

	Cash and Cash Equivalents (*)	Debt Securities	Equity Securities (*)	Balanced Funds	Total
Increase (Decrease) in Net Investment Position	**$ (793)**	**$ 271,770**	**$ (34,585)**	**$ 4,588,885**	**$ 4,825,277**
Percentage Change in Net Investment Position	**-2.6%**	**2.7%**	**-1.5%**	**9.7%**	**8.0%**
One Year Time Weighted Return - June 30, 2018	**1.2%**	**-0.2%**	**11.5%**	**8.6%**	**7.2%**
One Year Time Weighted Return - June 30, 2017	**0.5%**	**1.9%**	**19.4%**	**10.6%**	**9.3%**

(*) Net investment position includes accrued income and expenses

The following summarizes the changes in net investment position for each main investment category in the previous table:

- ***Cash and cash equivalents*** net investment position remained steady with minimal change. Cash balances represent less than 1 percent of total investments and are within policy ranges. 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. Cash returns for the one-year period ended June 30, 2018, increased over the prior fiscal year to 1.2 percent resulting in an increase in interest income over the prior year. Short-term rates moved considerably higher over the last year as a result of Federal Reserve actions and anticipated future actions. The Federal Reserve increased the target range for the federal funds rate three times during this fiscal year for a total of 75 basis points. The Net Investment Position of Cash and Cash Equivalents include accrued income and accrued expenses.

- ***Debt securities*** net investment position increased by $0.3 million. This increase is due entirely to asset allocation rebalancing in order to bring asset balances in line with policy targets and equity sale proceeds were reinvested in this fixed income portfolio. The DDEF invests in a commingled investment fund, the Daily Valued Bond Fund, managed by the WSIB. Accordingly, interest income is retained and reinvested within the commingled fund and is reflected in net realized and unrealized gains and losses. Coupon payments reinvested within the Daily Valued Bond Fund were not sufficient to offset price declines within the portfolio, resulting in a small net realized loss within the DDEF's debt securities. The return of the portfolio for the current fiscal year end was (0.2) percent which is a substantial decrease over the prior fiscal year end return of 1.9 percent. This resulted in a decrease of net realized and unrealized gains and losses from the previous fiscal year. Debt securities outperformed its benchmark, the Bloomberg Barclays U.S. Intermediate Credit Index, of (0.4) percent. This occurred for two reasons: (1) an overweight to shorter maturity bonds resulting in less negative price return than the index and (2) a higher income return than the benchmark for the year.

  In the U.S., the Federal Reserve hiked interest rates three times over the last 12 months in response to the solid rate of growth and improvements in the labor market. This led U.S. Treasury rates higher for the year with the shorter rates increasing significantly more than the longer dated rates. However, the improved economic outlook failed to further tighten credit spreads from already very low levels. Instead credit spreads widened for the year, with the majority of the widening occurring the last six months. The higher interest rates and wider credit spreads resulted in lower fixed income prices for both U.S. Treasuries and credit bonds. With the increase in rates more muted on the longer maturity bonds, the longer maturity segment of the market outperformed the intermediate maturity bonds. Short maturity bonds with their much lower price sensitivity to changes in interest rates also outperformed the intermediate maturity bonds. The extra income received from credit bonds was enough to offset the price decrease from wider credit spreads, resulting in credit bonds performing better than U.S. Treasuries with similar maturity for the year.

See Daily Valued Fund audited financials for additional information on this investment vehicle.

- ***Balanced mutual funds*** net investment position increased by $4.6 million. Private trust fund contributions of $0.5 million were invested in this asset class. Realized and unrealized gains increased the portfolio by $3.0 million. The remaining increase was due to the reinvestment of income within the balanced mutual 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 U.S. equities and 40 percent U.S. bonds. The overall performance of the fund in the current fiscal year was 8.6 percent. The decrease from the prior year return of 10.6 percent was a result of declining returns in both the fixed income and equity markets. This decrease in returns resulted in a decrease of $0.5 million of net realized and unrealized gains from the previous fiscal year. See equity securities and debt securities narratives for further market information.

- ***Equity securities*** net investment position decreased slightly from the prior fiscal year. Realized and unrealized gains within the portfolio of $0.3 million were offset with corresponding redemptions from the equity fund which were reinvested in debt securities. The overall investment return for equity securities in the current fiscal year of 11.5 percent which was a decrease from the prior fiscal year return of 19.4 percent. This resulted in a decrease of $0.1 million in realized and unrealized gains from the previous year.

  The global equity market returns experienced during the fiscal year end 2018 remained strong, but were noticeably below those of fiscal year 2017. The DDEF equity portfolio is managed to passively track the broad global stock market as defined by the Morgan Stanley Capital International All Country World Investable Market Index (MSCI ACWI IMI). Overall, the U.S. equity market returned 15.0 percent and the Non-U.S. markets returned 7.8 percent as measured by MSCI indices, which are broad barometers of overall market returns. The prior year index return for the U.S. and Non-U.S. markets were 18.4 percent and 20.4 percent, respectively which demonstrate noticeable declines in each. The U.S. market performance exceeded that of the Non-U.S. markets in the current fiscal year. Also, U.S. small cap stocks generally outperformed large cap stocks, as well as the broader market.

  The global economy continued to grow at a brisk pace over the last year. U.S. unemployment rate hit lows not seen since the 1960s, and higher commodity prices had an overall positive effect on emerging market countries. The strength of the economic growth was offset by an increase in geopolitical risk with heightened tension with North Korea and an escalation of the potential for a trade war between the U.S. and China centered on the use of tariffs. In Europe the growth showed signs of slowing down over the last six months on the heels of a stalemate in the UK Brexit negotiations as well as Italy’s difficulty in forming a government following the election. Other factors influencing the global equity returns during the fiscal year 2018 include the recent U.S. tax cuts, the strong returns from the previous fiscal year (where the returns in the following year are typically lower), and the strong performance of U.S. information technology stocks during this period.

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. The 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, 2018

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	$ 19,966	$ 9,458	$ 29,424	0.0%
DEBT SECURITIES				
Commingled Intermediate Credit	10,480,286	-	10,480,286	16.2%
EQUITY SECURITIES				
Commingled Equity Index Funds	2,292,627	-	2,292,627	3.5%
BALANCED FUNDS				
Balanced Mutual Funds	-	52,018,857	52,018,857	80.3%
Total Investments	12,792,879	52,028,315	64,821,194	100.0%
Investment Earnings Receivable	32	15	47	
Total Assets	12,792,911	52,028,330	64,821,241	
LIABILITIES				
Accrued Expenses Payable	171	2	173	
NET INVESTMENT POSITION	**$ 12,792,740**	**$ 52,028,328**	**$ 64,821,068**	

DDEF Statement of Changes in Net Investment Position - Year Ended June 30, 2018

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	$ 1,549	$ 1,073,814	$ 1,075,363
Net Realized and Unrealized Gains	235,888	3,015,495	3,251,383
Less:			
Investment Expenses	(551)	(918)	(1,469)
WSIB Operating Expenses	(2,375)	-	(2,375)
Net Investment Income	234,511	4,088,391	4,322,902
Net Amount Contributed	2,375	500,000	502,375
Increase in Net Investment Position	236,886	4,588,391	4,825,277
Net Investment Position, June 30, 2017	12,555,854	47,439,937	59,995,791
Net Investment Position, June 30, 2018	$ 12,792,740	$ 52,028,328	$ 64,821,068

Notes to Financial Statements

Note 1. Description of Funds and Significant Accounting Policies

Description of Funds

The DDEF of Washington State consists of two funds: 1) the State Trust Fund which was originally created from a grant by Washington State, and 2) the Private Trust Fund, which 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 U.S., for governments prescribed by the Governmental Accounting Standards Board (GASB) on the accrual basis of accounting.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments which are short-term investment funds valued at cost. Accordingly, these investments are excluded from the fair value schedule in Note 4 to the basic financial statements.

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.

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 U.S., 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. The 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, 2018, 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, 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 investment policies require the duration range for the commingled intermediate credit fund not exceed plus or minus 15 percent of the Bloomberg Barclays U.S. 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, 2018. 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 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, 2018, 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. Revised Code of Washington (RCW) 43.33A.140 requires that corporate fixed income securities cost may not exceed 3 percent of the DDEF 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, 2018.

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. The DDEF has no formal policy to limit foreign currency risk. The only securities held by the DDEF with foreign currency exposure at June 30, 2018, consists of $2.3 million invested in various global commingled equity index funds. Maximum foreign currency exposure is approximately $1.0 million within these funds.

Note 4. Fair Value

GASB Statement No. 72, Fair Value Measurement and Application, (Statement 72) specifies a hierarchy of valuation classifications based on whether the inputs to the valuation techniques used in each valuation classification are observable or unobservable. These classifications are summarized in three broad levels listed below:

- Level 1 – Unadjusted quoted prices for identical instruments in active markets.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly, including quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted prices that are observable for the assets or liabilities (such as exchange rates, financing terms, interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks, and default rates).
- Level 3 – Valuations derived from valuation techniques in which significant inputs or significant value drivers are unobservable.

Inputs used to measure fair value might fall in different levels of the fair value hierarchy; in which case, the DDEF defaults to the lowest level input that is significant to the fair value measurement of each investment, with Level 3 being the lowest level. The determination of fair value of an investment within the hierarchy of classifications above is not necessarily an indication of the risk or liquidity associated with the investments. In determining the appropriate levels, the DDEF performed a detailed analysis of the assets and liabilities that are subject to Statement 72. Valuation policies and procedures are managed by the Investment Accounting and Administration unit of the WSIB, which regularly monitors fair value measurements. Fair value measurements are prepared and reviewed monthly, and any third party valuations are reviewed for reasonableness and compliance with relevant accounting standards.

The following table presents fair value measurements as of June 30, 2018:

		Fair Value Measurements Using:		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
INVESTMENTS				
BALANCED FUNDS				
Balanced Mutual Funds	$ 52,018,857	$ 52,018,857	$ -	$ -
Total Investments By Fair Value Level	52,018,857	52,018,857	-	-
COMMINGLED INVESTMENT FUNDS - INVESTMENTS MEASURED AT NET ASSET VALUE				
Commingled Equity Index Funds	2,292,627			
Commingled Intermediate Credit	10,480,286			
Total Investments at Net Asset Value	12,772,913			
Total Investments Measured at Fair Value	$ 64,791,770			

Balanced Mutual Funds (Level 1)

The DDEF invests in a publicly traded mutual fund, the Vanguard Balanced Index Fund Institutional Shares (ticker VBIAX), which is actively traded on the New York Stock Exchange. The closing market price of the shares at June 29, 2018, was $34.84 per share, which was verified to independent sources by WSIB staff. The fund invests roughly 60 percent in stocks and 40 percent in bonds by tracking two indexes that represent broad barometers for the U.S. equity and U.S. taxable bond markets.

Commingled Investment Funds (Investments Measured at Net Asset value)

The DDEF invests in Collective Investment Trusts operated by a bank or trust company and groups assets contributed into a commingled investment Fund. In addition, the DDEF invests in the Daily Valued Bond Fund managed by the WSIB, whose audited financials are included in the Daily Valued Fund section of the WSIB's audited financial statements. These "mutual fund" type investments are not available to the general public and are open-ended funds which issues or reduces shares for purchases and redemptions. The commingled fund manager determines a price per unit of each fund by obtaining fair values of the underlying holdings, using reputable pricing sources and computing an overall net asset value per share. The holdings within each fund are publicly traded securities.

Five funds are invested in equity securities and, combined, are passively managed to approximate the broad global stock market, as defined by the MSCI All Country World Investable Market Index (MSCI ACWI IMI). Each fund has monthly openings and contributions, and withdrawals can be made on each opening date. The fund manager reserves the right to delay the processing of deposits and withdrawals from each investment vehicle in order to ensure that securities transactions will be carried out in an orderly manner. The fund may suspend valuation and withdrawal rights when, at the fund managers sole discretion, prevailing market conditions or other circumstances, events, or occurrences make the withdrawal or valuation of investments impracticable or inadvisable, or when the fund manager otherwise considers such action to be in the best interests of the fund and participants.

One fund is invested in the WSIB Daily Bond Fund and is actively managed to meet or exceed the return of the Bloomberg Barclays U.S. Intermediate Credit Index. The DDEF may redeem some or all of their holdings daily without restriction (see the Daily Valued Funds audited financials issued by the WSIB for further information).

Note 5. Summary of Investment Policy

Under RCW 43.33A.030, trusteeship of the 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 investment objectives of the DDEF.

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 Governing Board and the participants. Based on this requirement, the order of the objectives shall be to:

- Maximize return at a prudent level of risk based on identified investment time horizons.
- Ensure sufficient assets are available to fund the expected needs.
- 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 states in part, 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 or common stock holding's cost shall exceed 3 percent of the fund's market value at the time of purchase, nor shall its market value exceed 6 percent of the fund's market value at any time (RCW 43.33A.140).
- Diversification of the assets at a prudent level to moderate fluctuations in the fair value of the program.

Permissible Investments

Fixed Income: Inflation Indexed Bonds, U.S. Treasuries and Government Agencies, Credit Bonds, WSIB Bond Market Fund, Cash Equivalent Funds
U.S. Equity: The benchmark and structure for public equity investments will be to passively track the broad global stock market as defined by the MSCI All Country World Investable Market Index (MSCI ACWI IMI)
Balanced Mutual Funds: DDEF – Private Funds will invest in the Vanguard Balanced Index – Institutional Share's mutual fund
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.
- Long-term: Earn a rate of return that exceeds inflation.

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

State Funds	Target	Range
Cash	0%	0%-5%
Fixed Income	83%	80%-86%
Global Equity	17%	14%-20%

Private Funds	Target
Fixed Income	40%
Equities	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
Commingled Intermediate Credit	$ 10,480,286	$ 1,133,843	$ 5,294,088	$ 4,052,355	$ -	4.4	Schedule 2
Investments Not Required to be Categorized							
Commingled Equity Index Funds	2,292,627						
Balanced Mutual Funds	52,018,857						
Money Market Funds	29,424						
Total Investments Not Categorized	54,340,908						
Total Investments	$ 64,821,194						

Schedule 2: Additional Credit Rating Disclosures

Moody's Equivalent Credit Rating	Commingled Intermediate Credit Market Value
Aaa	$ 494,516
Aa1	158,232
Aa2	313,922
Aa3	886,411
A1	2,082,387
A2	1,034,474
A3	1,352,758
Baa1	1,307,793
Baa2	1,159,205
Baa3 and below	1,431,740
Ba1 or Lower	258,848
Total Fair Value	$ 10,480,286

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Members of the Washington State Investment Board
Olympia, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Developmental Disabilities Endowment Trust Fund as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Developmental Disabilities Endowment Trust Fund's financial statements, and have issued our report thereon dated September 24, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Developmental Disabilities Endowment Trust Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Developmental Disabilities Endowment Trust Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Developmental Disabilities Endowment Trust Fund's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during

our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Developmental Disabilities Endowment Trust Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Developmental Disabilities Endowment Trust Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Developmental Disabilities Endowment Trust Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Boise, Idaho
September 24, 2018

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WASHINGTON STATE OPPORTUNITY SCHOLARSHIP FUNDS

CPAs & BUSINESS ADVISORS

Independent Auditor's Report

To the Members of the Washington State Investment Board
Olympia, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the Washington State Opportunity Scholarship Funds (which are comprised of WSOSF – Scholarship Fund, WSOSF – Endowment Fund, and WSOSF – Cash Reserve Fund) of the State of Washington as managed by the Washington State Investment Board (the Washington State Opportunity Scholarship Funds), which comprise the statement of net investment position as of June 30, 2018, 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 of America; 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.

Auditors' 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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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.

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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 investment position of the Washington State Opportunity Scholarship Funds as of June 30, 2018, and the changes in net investment position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic 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 of America, 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2018 on our consideration of the Washington State Opportunity Scholarship Funds' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Washington State Opportunity Scholarship Funds' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Washington State Opportunity Scholarship Funds' internal control over financial reporting and compliance.

Eide Bailly LLP

Boise, Idaho
September 24, 2018

Management Discussion and Analysis

Management's Discussion and Analysis for the Washington State Opportunity Scholarship Fund (WSOSF), 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 WSOSF 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 WSOSF, as of June 30, 2018. 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 WSOSF, for the year ended June 30, 2018. The following table compares the net investment position of each major investment classification at June 30, 2018, with those at June 30, 2017. In addition, they summarize the changes in each major investment classification for the fiscal year ended June 30, 2018 and 2017, as well as compare investment performance and other relevant information between the two reporting periods. 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 WSOSF.

As shown in the following table, the net investment position of the WSOSF increased by $15.9 million during the fiscal year ended June 30, 2018. Net contributions from the WSOSF during the year increased net investment position by $11.4 million. Net investment income increased net investment position by $4.5 million and was reinvested in the various asset classes of the WSOSF.

Net investment income decreased by $1.7 million during the current fiscal year as compared to the prior year, mainly due to a large decrease in net realized and unrealized gains. The current fiscal year return for the WSOSF was 5.3 percent compared to the prior fiscal year return of 8.3 percent. The decrease in total returns was due to a substantial decrease in investment returns in all asset classes except cash and cash equivalents.

The WSOS administrator remits private donations and matching funds to the WSIB for investment purposes periodically as they are received. The net contributions increased from the prior fiscal year from the administrator and the dollars available for investment are determined by them on a periodic basis. Private donations and state matching funds of $27.4 million were received from the administrator as contributions and reinvested pursuant to WSOSF's asset allocation policy in both debt and equity securities.

Investment income receivable and expenses are reflected in each asset class's net investment position. These balances fluctuate from year to year based on invested balances, average coupon rates, and dividend yields.

Summarized Change in Net Investment Position and Returns by Asset Class										
	Fiscal Year End June 30, 2018				Fiscal Year End June 30, 2017				Year Over Year Change	
	Cash and Cash Equivalents(*)	Debt Securities	Equity Securities (*)	Total	Cash and Cash Equivalents(*)	Debt Securities	Equity Securities (*)	Total	Increase (Decrease)	Percent Change
Beginning Net Investment Position	$ 26,003,413	$ 15,921,582	$ 35,595,516	$ 77,520,511	$ 39,877,596	$ 15,626,302	$ 29,810,188	$ 85,314,086	$ (7,793,575)	-9.1%
Investment Income:										
Interest, Dividends, and Other Investment Income	347,942	-	12,313	360,255	178,564	-	5,860	184,424	175,831	95.3%
Realized and Unrealized Gains (Losses)	-	(123,582)	4,374,609	4,251,027	-	295,280	5,795,919	6,091,199	(1,840,172)	-30.2%
Less: Investment Expenses	(58,680)	(5,616)	(17,596)	(81,892)	(63,602)	(4,770)	(16,826)	(85,198)	(3,306)	-3.9%
Net Investment Income (Loss)	289,262	(129,198)	4,369,326	4,529,390	114,962	290,510	5,784,953	6,190,425	(1,661,035)	-26.8%
Net Contribution (Withdrawal) by WSOSF	11,362,773	-	-	11,362,773	(13,984,000)	-	-	(13,984,000)	25,346,773	181.3%
Transfers to Other Asset Classes	(24,849,180)	12,849,786	11,999,394	-	(5,145)	4,770	375	-	-	NA
Ending Net Investment Position	**$ 12,806,268**	**$ 28,642,170**	**$ 51,964,236**	**$ 93,412,674**	**$ 26,003,413**	**$ 15,921,582**	**$ 35,595,516**	**$ 77,520,511**	**$ 15,892,163**	**20.5%**

	Cash and Cash Equivalents(*)	Debt Securities	Equity Securities (*)	Total
Increase (Decrease) in Net Investment Position	$ (13,197,145)	$ 12,720,588	$ 16,368,720	$ 15,892,163
Percentage Change in Net Investment Position	-50.8%	79.9%	46.0%	20.5%
One Year Time Weighted Return - June 30, 2018	1.2%	-0.2%	11.4%	5.3%
One Year Time Weighted Return - June 30, 2017	0.5%	1.9%	19.4%	8.3%

(*) Net investment position by asset class includes investment earning receivable and accrued expenses

The following summarizes the changes in net investment position for each main investment category in the previous table:

- ***Cash and cash equivalents*** net investment position decreased during the current fiscal year mainly due to withdrawals of $16.0 million from the state matching funds by the administrator to fund program operating costs and scholarships. The remaining change was due to net investment income reinvested within the fund. Cash returns for the one-year period ended June 30, 2018 was 1.2 percent. Short-term rates moved considerably higher over the last year as a result of Federal Reserve actions and anticipated future actions. The Federal Reserve increased the target range for the federal funds rate three times during this fiscal year for a total of 75 basis points. The Net Investment Position of Cash and Cash Equivalents include accrued income and accrued expenses.

- ***Debt securities*** net investment position increased by $12.7 million. This increase is due primarily to the contributions received from the WSOSF from private donations, originally invested in cash and subsequently transferred to meet asset allocation targets. The WSOSF invests in commingled investment fund, the Daily Valued Bond Fund, managed by the WSIB. Accordingly, interest income is retained and reinvested within the commingled fund and is reflected in net realized and unrealized gains and losses in these financial statements. Coupon payments reinvested within the Daily Valued Bond Fund were not sufficient to offset price declines within the portfolio, resulting in a net realized loss within the WSOSF's debt securities. The return of the portfolio for the current fiscal year end was (0.2) percent which is a substantial decrease over the prior fiscal year end return of 1.9 percent. This was the result of a rising interest rate environment during the current fiscal year. The decreased returns resulted in a corresponding decrease of net realized and unrealized gains and losses from the previous fiscal year. Debt securities outperformed its benchmark, the Bloomberg Barclays U.S. Intermediate Credit Index, of (0.4) percent. This occurred for two reasons: (1) an overweight to shorter maturity bonds resulting in less negative price return than the index, and (2) a higher income return than the benchmark for the year.

In the U.S., the Federal Reserve hiked interest rates three times over the last 12 months in response to the solid rate of growth and improvements in the labor market. This led U.S. Treasury rates higher for the year with the shorter rates increasing significantly more than the longer dated rates. However, the improved economic outlook failed to further tighten credit spreads from already very low levels. Instead credit spreads widened for the year, with the majority of the widening occurring the last six months. The higher interest rates and wider credit spreads resulted in lower fixed income prices for both U.S. Treasuries and credit bonds. With the increase in rates more muted on the longer maturity bonds, the longer maturity segment of the market outperformed the intermediate maturity bonds. Short maturity bonds with their much lower price sensitivity to changes in interest rates also outperformed the intermediate maturity bonds. The extra income received from credit bonds was enough to offset the price decrease from wider credit spreads, resulting in credit bonds performing better than U.S. Treasuries with similar maturity for the year.

See Daily Valued Fund audited financials for additional information on this investment vehicle.

- ***Equity securities*** net investment position increased by $16.4 million. Approximately $12.0 million of this increase is from contributions received from the WSOSF from private donations, originally invested in cash, and subsequently transferred to meet asset allocation targets. The remaining increase is due to net realized and unrealized gains within the portfolio. The equity portfolio returned 11.4 percent during the current fiscal year as compared to the prior fiscal year return of 19.4 percent. This resulted in a decrease of net realized and unrealized gains and losses over the prior fiscal year of $1.4 million.

  The global equity market returns experienced during the fiscal year end 2018 remained strong, but were noticeably below those of fiscal year 2017. The WSOSF equity portfolio is managed to passively track the broad global stock market as defined by the Morgan Stanley Capital International All Country World Investable Market Index (MSCI ACWI IMI). Overall, the U.S. equity market returned 15.0 percent and the Non-U.S. markets returned 7.8 percent as measured by MSCI indices, which are broad barometers of overall market returns. The prior year index return for the U.S. and Non-U.S. markets were 18.4 percent and 20.4 percent, respectively which demonstrates noticeable declines in each. The U.S. equity market performance exceeded that of the Non-U.S. markets in the current fiscal year. Also, U.S. small cap stocks generally outperformed large cap stocks, as well as the broader market.

  The global economy continued to grow at a brisk pace over the last year. U.S. unemployment rate hit lows not seen since the 1960s, and higher commodity prices had an overall positive effect on emerging market countries. The strength of the economic growth was offset by an increase in geopolitical risk with heightened tension with North Korea and an escalation of the potential for a trade war between the U.S. and China centered on the use of tariffs. In Europe the growth showed signs of slowing down over the last six months on the heels of a stalemate in the UK Brexit negotiations as well as Italy's difficulty in forming a government following the election. Other factors influencing the global equity returns during the fiscal year 2018 include the recent U.S. tax cuts, the strong returns from the previous fiscal year (where the returns in the following year are typically lower), and the strong performance of U.S. information technology stocks during this period.

The fair value of the WSOSF 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 staff rebalances the WSOSF's assets between asset classes as markets move, pursuant to WSIB policy.

Washington State Opportunity Scholarship Fund (WSOSF) Statement of Net Investment Position - June 30, 2018

See notes to financial statements

	WSOSF - Scholarship Fund	WSOSF - Endowment Fund	WSOSF - Cash Reserve	Total	Percent of Total
ASSETS					
Investments:					
CASH AND CASH EQUIVALENTS					
Short Term Investment Funds	$ 86,919	$ 12,688,336	$ 13,999	$ 12,789,254	13.7%
DEBT SECURITIES					
Commingled Intermediate Credit	25,805,739	2,836,431	-	28,642,170	30.7%
EQUITY SECURITIES					
Commingled Equity Index Funds	38,345,240	13,620,818	-	51,966,058	55.6%
Total Investments	64,237,898	29,145,585	13,999	93,397,482	100.0%
Investment Earnings Receivable	137	20,080	24	20,241	
Total Assets	64,238,035	29,165,665	14,023	93,417,723	
LIABILITIES					
Accrued Expenses Payable	2,258	2,788	3	5,049	
NET INVESTMENT POSITION	**$ 64,235,777**	**$ 29,162,877**	**$ 14,020**	**$ 93,412,674**	

Washington State Opportunity Scholarship Fund (WSOSF) Statement of Changes in Net Investment Position - Year Ended June 30, 2018

See notes to financial statements

	WSOSF - Scholarship Fund	WSOSF - Endowment Fund	WSOSF - Cash Reserve	Total
Net Investment Income				
Investment Income:				
Interest, Dividends and Other Investment Income	$ 185,314	$ 174,784	$ 157	$ 360,255
Net Realized and Unrealized Gains	2,820,185	1,430,842	-	4,251,027
Less:				
Investment Expenses	(36,636)	(28,717)	(21)	(65,374)
WSIB Operating Expenses	(11,414)	(5,104)	-	(16,518)
Net Investment Income	2,957,449	1,571,805	136	4,529,390
Cash Transfers	12,083	5,459	(17,542)	-
Net Amount Contributed	9,859,186	1,483,587	20,000	11,362,773
Increase (Decrease) in Net Investment Position	12,828,718	3,060,851	2,594	15,892,163
Net Investment Position, June 30, 2017	51,407,059	26,102,026	11,426	77,520,511
Net Investment Position, June 30, 2018	$ 64,235,777	$ 29,162,877	$ 14,020	$ 93,412,674

Notes to Financial Statements

Note 1. Description of Funds and Significant Accounting Policies

Description of Funds

The Washington State Opportunity Scholarship Fund (WSOSF) was created by the Washington State Legislature in 2011 to encourage student participation in high employer-demand programs of study. The investment responsibility for the WSOSF is granted to the Washington State Investment Board, in accordance with Revised Code of Washington (RCW) 28B.145.090. The WSOSF is comprised of two distinct pools of assets, each funded by a mix of private funds and state matching funds. The two pools are the scholarship and endowment accounts, as created by RCW 28B.145.040. The financial statements present only the activity of the WSOSF as managed by the WSIB. The financial statements do not present the financial position and results of operations of the WSIB or the activity of the WSOSF not managed by 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.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments comprised of short-term investment funds valued at cost. Accordingly, these investments are excluded from the fair value schedule in Note 4 to the basic financial statements.

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.

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 WSOSF'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. The 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 WSOSF will not be able to recover the value of its deposits, investments, or collateral securities. As of June 30, 2018, investment securities (excluding cash and cash equivalents) are registered and held in the name of the WSIB, for the benefit of the WSOSF, 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 WSOSF investment policies require the duration range for the commingled intermediate credit fund not exceed plus or minus 15 percent of the Bloomberg Barclays U.S. Intermediate Credit Index. Increases in prevailing interest rates generally translate into decreases in fair values of fixed income investments.

Schedules 1 and 2 provide information about the interest rate risks associated with the WSOSF investments, as of June 30, 2018. 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 WSOSF 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 WSOSF's rated debt investments as of June 30, 2018, 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 the cost of corporate fixed income securities may not exceed 3 percent of the WSOSF fair value at the time of purchase, nor shall its fair value exceed 6 percent of the WSOSF fair value at any time. There was no concentration of credit risk that exceeded these limits as of June 30, 2018.

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. The WSOSF has no formal policy to limit foreign currency risk. The only security held by the WSOSF with foreign currency exposure at June 30, 2018, consists of $52 million invested in an international commingled equity index funds (MSCI All Country World Investible Market Index). The WSOSF's exposure to foreign currency risk is presented in Schedule 3.

Note 4. Fair Value

GASB Statement No. 72, Fair Value Measurement and Application, (Statement 72) specifies a hierarchy of valuation classifications based on whether the inputs to the valuation techniques used in each valuation classification are observable or unobservable. These classifications are summarized in three broad levels listed below:

- Level 1 – Unadjusted quoted prices for identical instruments in active markets.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in markets that are active; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs other than quoted prices that are observable for the assets or liabilities (such as exchange rates, financing terms, interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks, and default rates).
- Level 3 – Valuations derived from valuation techniques in which significant inputs or significant value drivers are unobservable.

The WSOSF obtains exposure to debt and equity markets through commingled investment funds. Accordingly, the securities held are measured at net asset value and not categorized by Statement 72 hierarchy of valuation classifications detailed above. Valuation policies and procedures are managed by the Investment and Financial Services unit of the WSIB, which regularly monitors fair value measurements. Fair value measurements are prepared and reviewed monthly, and any third party valuations are reviewed for reasonableness and compliance with relevant accounting standards.

Commingled Investment Funds (Investments Measured at Net Asset value)

The WSOSF invest in Collective Investment Trusts operated by a bank or trust company and groups assets contributed into a commingled investment fund. In addition, the WSOSF invests in the Daily Valued Bond Fund managed by the WSIB, whose audited financials are included in the Daily Valued Fund section of the WSIB's audited financial statements. These "mutual or commingled fund" type investments are not available to the general public and are open-ended funds which issues or reduces shares for purchases and redemptions. The fund manager determines a price per unit of each fund by obtaining fair values of the underlying holdings, using reputable pricing sources and computing an overall net asset value per share.

The commingled equity index fund is invested in publicly traded equity securities, which are passively managed to approximate the capitalization weighted rates of return for the broad global stock market, as defined by the Morgan Stanley Capital International All Country World Investable Market Index (MSCI ACWI IMI). The fund has daily openings and contributions, and withdrawals can be made on any business day. The fund manager, at its discretion, may require withdrawal proceeds to be made partially or wholly in kind. Under certain circumstances, the fund manager may choose to suspend valuation and/or the right to make contributions and withdrawals from the fund. Such circumstances include actual or anticipated closure, restriction, or suspension of trading activity in any markets or exchanges where the fund investments are traded, where the purchase, sale, or pricing of the fund's investments would not be reasonably practicable or advisable, or where suspending contributions or withdrawals would be in the best interest of the fund or participants.

The commingled intermediate credit fund is invested in publicly traded debt securities within the WSIB Daily Bond Fund, which is actively managed to meet or exceed the return of the Bloomberg Barclays U.S. Intermediate Credit Index. The WSOSF may redeem some or all of their holdings on any business day without restriction (see the Daily Valued Funds audited financials issued by the WSIB for further information).

The following table presents fair value measurements at June 30, 2018:

	Fair Value
INVESTMENTS	
INVESTMENTS MEASURED AT NET ASSET VALUE	
Commingled Equity Index Funds	$ 51,966,058
Commingled Intermediate Credit	28,642,170
Total Investments at Net Asset Value	80,608,228
Total Investments Measured at Fair Value	$ 80,608,228

Note 5. Summary of Investment Policy

Under RCW 43.33A.030, trusteeship of WSOSF 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 WSOSF Board. Based on this requirement, the order of the objectives shall be:

- Maintain the financial stability of the program.
- Ensure sufficient assets are available to fund the scholarship goals of the program over a 10-year time horizon.
- Subject to the above, manage the assets to achieve a maximum return at a prudent level of risk.
- Invest in a manner that will not compromise the 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, subject to the unique risk tolerances of the WSOSF program.
- 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 (RCW 43.33A.140).
- Diversify the assets at a prudent level to moderate fluctuations in the fair value of the program.

WASHINGTON STATE OPPORTUNITY SCHOLARSHIP FUNDS

Scholarship and Endowment Account

The state provides matching funds to WSOSF to fund scholarships in partnership with private corporations. Investment eligibility of the matching funds is determined by the state constitution and laws. Private funds held in the scholarship account are comprised of donations from corporations and individuals and are not subject to state constitution investment eligibility guidelines.

Permissible Investments – State Matching Funds

The investment eligibility of the state matching funds is determined by the state constitution and laws as follows:

- Government agencies and U.S. Treasuries.
- Short-Term Investment Funds (STIF) that invest strictly in U.S. government or agency instruments, including repurchase agreements.

Asset Allocation

State Matching Funds - Scholarship and Endowment		
	Target	**Range**
Cash	100%	100

Private Fund Scholarship		
	Target	**Range**
Cash	0%	0%-5%
Public Equity	60%	55%-65%
Fixed Income	40%	35%-45%

Private Fund Endowment		
	Target	**Range**
Cash	0%	0%-5%
Public Equity	80%	75%-85%
Fixed Income	20%	15%-25%

The public equity component will be invested to track the return of the MSCI All Country World Investible Market Index (MSCI ACWI IMI). The fixed income component is invested in the WSIB Bond Market Fund, with a benchmark of the Bloomberg Barclays U.S. Intermediate Credit Index. In addition, the WSIB Bond Market Fund duration range shall not exceed plus or minus 15 percent of the duration of this index.

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
Commingled Intermediate Credit	$ 28,642,170	$ 3,098,744	$ 14,468,515	$ 11,074,911	$ -	4.4	Schedule 2
Investments Not Required to be Categorized							
Commingled Equity Index Funds	51,966,058						
Short Term Investment Funds	12,789,254						
Total Investments Not Categorized	64,755,312						
Total Investments	$ 93,397,482						

Schedule 2: Additional Credit Rating Disclosures

Moody's Equivalent Credit Rating	Commingled Intermediate Credit Market Value
Aaa	$ 1,351,490
Aa1	432,440
Aa2	857,936
Aa3	2,422,522
A1	5,691,075
A2	2,827,174
A3	3,697,028
Baa1	3,574,141
Baa2	3,168,058
Baa3	3,912,885
Ba1 and Lower	707,421
Total Fair Value	$ 28,642,170

Schedule 3: Foreign Currency Exposure

Foreign Currency Denomination	Equity Securities	Percent of Total Investments
AUSTRALIAN DOLLAR	$ 1,151,885	1.2%
BRAZILIAN REAL	335,330	0.4%
CANADIAN DOLLAR	1,617,644	1.7%
SWISS FRANC	1,206,473	1.3%
DANISH KRONE	286,014	0.3%
EURO CURRENCY	5,179,129	5.6%
POUND STERLING	3,009,879	3.2%
HONG KONG DOLLAR	1,844,604	2.0%
INDIAN RUPEE	549,877	0.6%
JAPANESE YEN	4,177,057	4.5%
SOUTH KOREAN WON	884,563	0.9%
SWEDISH KRONA	496,898	0.5%
SINGAPORE DOLLAR	218,015	0.2%
NEW TAIWAN DOLLAR	735,075	0.8%
SOUTH AFRICAN RAND	374,155	0.4%
OTHER MISCELLANEOUS CURRENCIES	1,408,422	1.5%
Total Foreign Currency Exposure	$ 23,475,020	25.1%

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Members of the Washington State Investment Board
Olympia, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Washington State Opportunity Scholarship Funds as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Washington State Opportunity Scholarship Funds' financial statements, and have issued our report thereon dated September 24, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Washington State Opportunity Scholarship Funds' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Washington State Opportunity Scholarship Funds' internal control. Accordingly, we do not express an opinion on the effectiveness of the Washington State Opportunity Scholarship Funds' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during

our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Washington State Opportunity Scholarship Funds' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

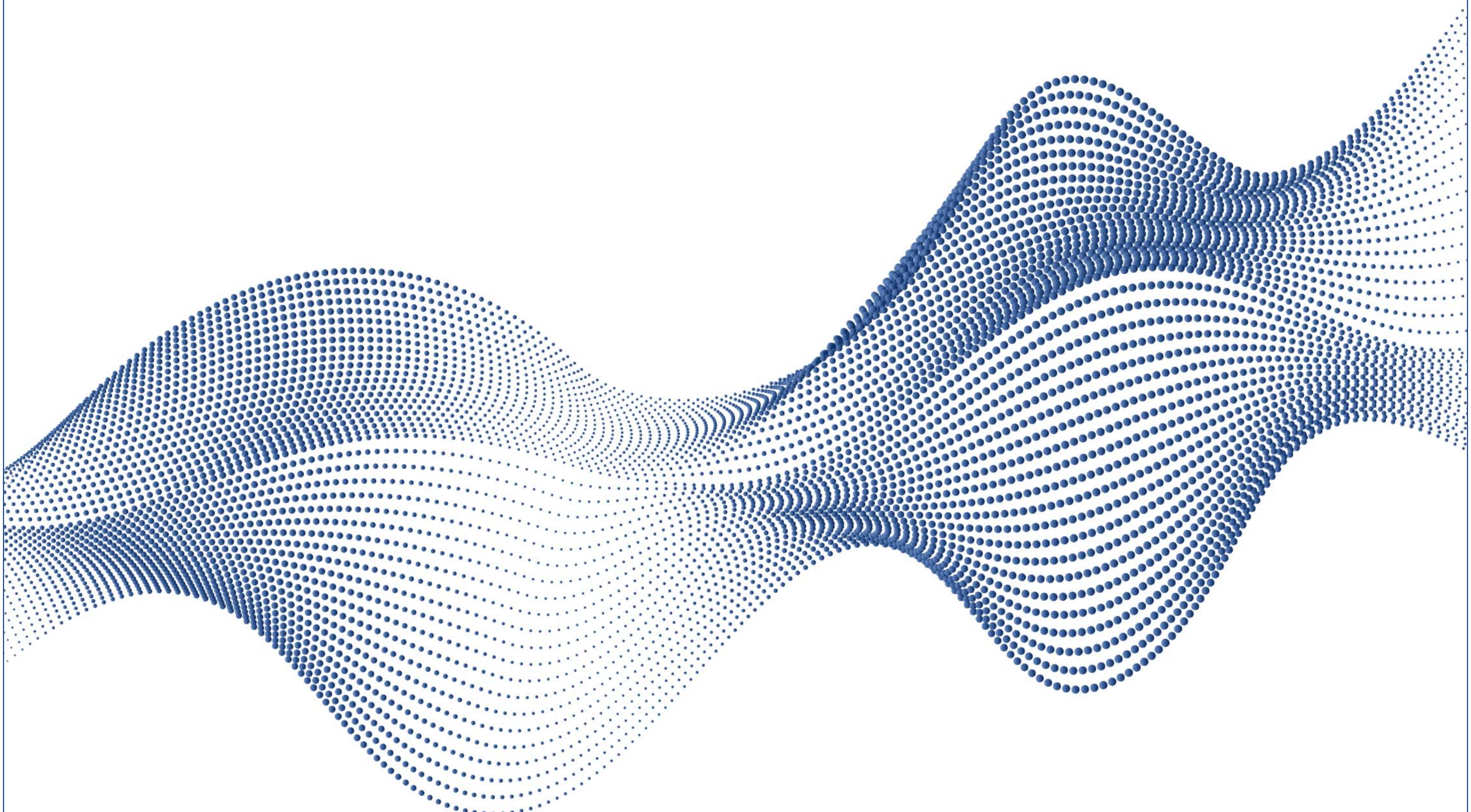
Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Washington State Opportunity Scholarship Funds' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Washington State Opportunity Scholarship Funds' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Boise, Idaho
September 24, 2018

DAILY VALUED FUNDS



CPAs & BUSINESS ADVISORS

Independent Auditor's Report

To the Members of the Washington State Investment Board
Olympia, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the Daily Valued Funds (which are comprised of the Bond Fund, Savings Pool, and TIPS Fund) of the State of Washington as managed by the Washington State Investment Board (the Daily Valued Funds), which comprise the statement of net investment position as of June 30, 2018, 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 of America; 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.

Auditors' 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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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.

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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 investment position of the Daily Valued Funds as of June 30, 2018, and the changes in net investment position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic 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 of America, 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2018 on our consideration of the Daily Valued Funds' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Daily Valued Funds' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Daily Valued Funds' internal control over financial reporting and compliance.

Eide Bailly LLP

Boise, Idaho
September 24, 2018

Management Discussion and Analysis

Management's Discussion and Analysis for the Daily Valued Funds (DVF) 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 DVF 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 DVF, as of June 30, 2018. 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 DVF, for the year ended June 30, 2018. The following table compares the net investment position of each major investment classification at June 30, 2018, with those at June 30, 2017. In addition, they summarize the changes in each major investment classification for the fiscal year ended June 30, 2018 and 2017, as well as a comparison of investment performance, the results of financial operations, and other relevant information between the two reporting periods. 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 DVF.

As shown in the following table the net investment position of the DVF decreased by $162.8 million during the fiscal year ended June 30, 2018. Net withdrawals from the DVF by participants during the year decreased net investment position by $182.2 million. Net investment income of $19.4 million was reinvested in the various funds and also increased the net investment position of the DVF.

Summarized Change in Net Investment Position and Returns by Asset Class

	Fiscal Year End June 30, 2018				Fiscal Year End June 30, 2017				Year Over Year Change	
	Bond Fund (*)	Savings Pool (*)	TIPS Fund (*)	Total	Bond Fund (*)	Savings Pool (*)	TIPS Fund (*)	Total	Increase (Decrease)	Percent Change
Beginning Net Investment Position (**)	$ 1,877,126,214	$ 871,672,313	$ 288,021,230	$ 3,036,819,757	$ 1,824,952,448	$ 871,859,233	$ 244,076,551	$ 2,940,888,232	$ 95,931,525	3.3%
Investment Income:										
Interest, Dividends, and Other Investment Income	59,011,911	18,145,773	2,016,743	79,174,427	59,391,994	13,653,976	1,728,219	74,774,189	4,400,238	5.9%
Realized and Unrealized Gains (Losses)	(63,570,611)	11,325	4,443,880	(59,115,406)	(24,756,924)	7,638	(3,299,916)	(28,049,202)	31,066,204	110.8%
Less: Investment Expenses	(417,359)	(164,895)	(79,154)	(661,408)	(305,366)	(315,516)	(19,295)	(640,177)	21,231	3.3%
Net Investment Income (Loss)	(4,976,059)	17,992,203	6,381,469	19,397,613	34,329,704	13,346,098	(1,590,992)	46,084,810	(26,687,197)	-57.9%
Net Amount Contributed (Withdrawn)	(196,644,082)	(25,501,256)	39,909,897	(182,235,441)	17,844,062	(13,533,018)	45,535,671	49,846,715	(232,082,156)	465.6%
Ending Net Investment Position (**)	**$ 1,675,506,073**	**$ 864,163,260**	**$ 334,312,596**	**$ 2,873,981,929**	**$ 1,877,126,214**	**$ 871,672,313**	**$ 288,021,230**	**$ 3,036,819,757**	**$ (162,837,828)**	**-5.4%**
Increase (Decrease) in Net Investment Position	**$ (201,620,141)**	**$ (7,509,053)**	**$ 46,291,366**	**$ (162,837,828)**						
Percentage Change in Net Investment Position	**-10.7%**	**-0.9%**	**16.1%**	**-5.4%**						
One Year Time Weighted Return - June 30, 2018	**-0.2%**	**2.1%**	**2.1%**	**NA**						
One Year Time Weighted Return - June 30, 2017	**1.9%**	**1.5%**	**-0.6%**	**NA**						

(*) Includes cash balances used for trading purposes. Savings Pool holds cash as part of the investment strategy.
(**) Net investment position includes accrued income, accrued expenses, and pending trades within each asset class

Net investment income was $26.7 million lower than the previous fiscal year almost entirely due to an increase in net realized and unrealized losses within the Bond Fund. While the Bond Fund returns were lower from the previous fiscal year and driving the majority of this decrease, the returns in the TIPS Fund were higher offsetting some of the market related losses within the DVF. These market losses were also partially offset with increases in interest earnings in the Saving Pool as a result of rising interest rates during the current fiscal year. As Guaranteed Insurance Contracts (GICs) matured, the proceeds were reinvested in securities with higher interest rates. Approximately $202.7 million of GICs matured during the current fiscal year end with interest rates ranging from 1.0 percent to 1.7 percent. The proceeds from maturities were reinvested in higher interest rate contracts with interest rates ranging from 2.0 percent to 3.6 percent.

Performance for the Bond Fund for the one year ended June 30, 2018, was (0.2) percent which outperformed its benchmark, the Bloomberg Barclays U.S. Intermediate Credit Index, of (0.4) percent. This occurred for two reasons: (1) an overweight to shorter maturity bonds resulting in less negative price return than the index and (2) a higher income return than the benchmark for the year. Performance for the TIPS Fund was 2.1 percent for the year and lagged slightly behind its benchmark return, the Bloomberg Barclays Capital U.S. Treasury Inflation Protected Securities Index. Increased returns in the savings pool is entirely due to rising interest rates resulting in increased interest earnings.

In the U.S., interest rates were increased by the Federal Reserve three times during the year in response to the solid rate of growth and improvements in the labor market. However, the improved economic outlook failed to further tighten credit spreads from already very low levels. Instead credit spreads widened for the year, with the majority of the widening occurring the last six months. The higher interest rates and wider credit spreads resulted in lower fixed income prices for both U.S. Treasuries and credit bonds. With the increase in rates more muted on the longer maturity bonds, the longer maturity segment of the market outperformed the intermediate maturity bonds. Short maturity bonds with their much lower price sensitivity to changes in interest rates also outperformed the intermediate maturity bonds. The extra income received from credit bonds was enough to offset the price decrease from wider credit spreads, resulting in credit bonds performing better than U.S. Treasuries for the year. Despite the resultant bond market price declines, the TIPS Fund maintained positive returns due to inflation adjustments inherent in these securities. The value of TIPS increased in correlation to expected inflation.

The global economy continued to grow at a brisk pace over the last year. U.S. unemployment rate hit lows not seen since the 1960's, and higher commodity prices had an overall positive effect on emerging market countries. The strength of the economic growth was offset by an increase in geopolitical risk with heightened tension with North Korea and an escalation of the potential for a trade war between the U.S. and China centered on the use of tariffs. In Europe the growth showed signs of slowing down over the last six months on the heels of a stalemate in the UK Brexit negotiations as well as Italy's difficulty in forming a government following the election.

Net contributions and withdrawals from the DVF decreased $232.1 million during the current fiscal year as compared to the prior fiscal year. Withdrawals from the Bond Fund increased $214.5 million over the previous year, representing the majority of this year over year change. The Guaranteed Education Tuition (GET) Fund, a participant in the Bond Fund, withdrew $250.0 million in April 2018 in anticipation of participant roll overs to a newly created IRS Section 529 Plan. Legislation enacted during the current fiscal year allows certain existing GET participants to roll their entire account balances into the new DreamAhead College Investment Plan. The roll over window began June 15, 2018 and is open until September 15, 2018. See the GET Fund audited financial statements for additional information.

All three DVFs include participants from either self-directed retirement options, or as part of the overall Target Date Fund (TDF) strategy for the defined contribution (DC) and deferred compensation programs of the state of Washington. As such, individual contributions or withdrawals are made based on instructions received from individual members and can fluctuate from year to year. Currently, the TDFs are the default option within the DC plans and are experiencing net contribution inflows from the DC participants. Both the Bond Fund and TIPS Fund are underlying components of each individual TDF glide path.

Investment related receivables and payables, which include investments purchased and sold pending settlement over year end, income receivables and expenses payable, are reflected in each asset class's net investment position. These balances fluctuate from year to year based on invested balances or trading activity. Pending trade balances vary due to fluctuations in unsettled securities transactions each year. 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 and can vary substantially from year to year. Investment income receivables and investment expenses payable generally fluctuate within each asset class based on the invested balances and interest rate changes each year.

As shown in the following table, securities on loan decreased by $11.1 million and collateral held under securities lending agreements decreased accordingly. Generally, borrower demand in the DVF is driven by specific holdings in the TIPS Fund which declined during the current fiscal year.

	June 30, 2018	June 30, 2017	Increase (Decrease)	Percentage Change
Securities on Loan Fiscal Year End	$ 12,031,152	$ 23,132,769	$ (11,101,617)	-48.0%
Cash Collateral Held Under Securities Lending Agreements	12,118,427	20,264,256	(8,145,829)	
Non-Cash Collateral Held Under Securities Lending Agreements	-	3,318,575	(3,318,575)	
Total Collateral Held	**$ 12,118,427**	**$ 23,582,831**	**$ (11,464,404)**	**-48.6%**

The fair value of the DVF 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 makes the asset allocation decisions for the DVF assets.

Daily Valued Funds (DVF) Statement of Net Investment Position - June 30, 2018

See notes to financial statements

	Bond Fund	Savings Pool	TIPS Fund	Total	Percent of Total
ASSETS					
Investments					
CASH AND CASH EQUIVALENTS	$ 100,847,038	$ 101,506,937	$ 12,303,323	$ 214,657,298	7.5%
DEBT SECURITIES					
Corporate Bonds	1,384,431,501	-	-	1,384,431,501	
U.S. Government and Agency Securities	-	-	321,210,978	321,210,978	
Guaranteed Insurance Contracts	-	762,460,812	-	762,460,812	
Foreign Government and Agencies	176,713,727	-	-	176,713,727	
Total Debt Securities	1,561,145,228	762,460,812	321,210,978	2,644,817,018	92.5%
Total Investments	1,661,992,266	863,967,749	333,514,301	2,859,474,316	100.0%
Investment Earnings Receivable	13,575,932	209,336	799,240	14,584,508	
Collateral Held Under Securities Lending Agreements	-	-	12,118,427	12,118,427	
Total Assets	1,675,568,198	864,177,085	346,431,968	2,886,177,251	
LIABILITIES					
Accounts Payable	62,125	13,825	945	76,895	
Payable for Investments Purchased	-	-	-	-	
Obligations Under Securities Lending Agreements	-	-	12,118,427	12,118,427	
Total Liabilities	62,125	13,825	12,119,372	12,195,322	
NET INVESTMENT POSITION	$ 1,675,506,073	$ 864,163,260	$ 334,312,596	$ 2,873,981,929	

Daily Valued Funds (DVF) Statement of Changes in Net Investment Position - Year Ended June 30, 2018

See notes to financial statements

	Bond Fund	Savings Pool	TIPS Fund	Total
Net Investment Income				
Investment Income:				
Interest, Dividends and Other Investment Income	$ 59,011,911	$ 18,145,773	$ 2,016,743	$ 79,174,427
Net Realized and Unrealized Gains (Losses)	(63,570,611)	11,325	4,443,880	(59,115,406)
Less: Investment Expenses	(417,359)	(164,895)	(79,154)	(661,408)
Net Investment Income (Loss)	(4,976,059)	17,992,203	6,381,469	19,397,613
Net Amount Contributed (Withdrawn)	(196,644,082)	(25,501,256)	39,909,897	(182,235,441)
Increase (Decrease) in Net Investment Position	(201,620,141)	(7,509,053)	46,291,366	(162,837,828)
Net Investment Position - June 30, 2017	1,877,126,214	871,672,313	288,021,230	3,036,819,757
Net Investment Position - June 30, 2018	$ 1,675,506,073	$ 864,163,260	$ 334,312,596	$ 2,873,981,929

Notes to Financial Statements

Note 1. Description of Funds and Significant Accounting Policies

Description of Funds

The Daily Valued Funds (DVF) of Washington State consists of three commingled investment options managed exclusively by WSIB staff. All three investment options are valued daily at fair value or cost. The Bond Fund is available for investment by any fund under trusteeship of the WSIB. The trust is established to invest primarily in intermediate maturity credit bonds. The Bond Fund is valued at fair market value and is suitable for qualified and non-qualified assets for which an intermediate credit bond investment is desired. The Savings Pool is invested in cash and Guaranteed Insurance Contracts (GICs) and is available for investment by the Deferred Compensation Program and the Judicial Retirement Account. The GICs are valued at cost. The Treasury Inflation Protected Security (TIPS) Fund is available to any of the funds under trusteeship of the WSIB. The trust is established to invest in U.S. TIPS. The TIPS Fund is valued at fair market value.

Participants are allowed to buy and sell units within these options daily. The following are the participants and ownership percentages by each DVF:

Participants	Bond Fund	Savings Pool	TIPS Fund
Deferred Compensation Plan	14.4%	99.7%	N/A
Judicial Retirement Account	Trace	0.3%	N/A
Washington State Retirement System Defined Contribution Participants	24.2%	N/A	N/A
Developmental Disabilities Endowment Trust Fund	0.6%	N/A	N/A
Guaranteed Education Tuition Program	28.2%	N/A	N/A
Washington State Opportunity Scholarship Fund	1.7%	N/A	N/A
Alliance Bernstein Retirement Strategy Funds	30.9%	N/A	100.0%

The WSIB has exclusive control of the investments held by the DVF. 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 U.S. for governments prescribed by the Governmental Accounting Standards Board (GASB) on the accrual basis of accounting.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments and are comprised of short-term investment funds which are valued at cost. Accordingly, these investments are excluded from the fair value schedule in Note 5 to the basic financial statements.

Valuation of Investments

All investments are reported at fair value except GICs, which are reported at cost. Fair values are based on published market prices, quotations from national security exchanges, and security pricing services. Investments are adjusted to fair values daily. 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 Withdrawals

Contributions and withdrawals are recorded when received or paid. There are no restrictions on the amount of contributions or withdrawals by any participant to the DVF.

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 DVF'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 directly to participants within each DVF, based upon actual costs incurred to manage the investments. The 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 DVF will not be able to recover the value of its deposits, investments, or collateral securities. As of June 30, 2018, 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 DVF participants, 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 DVF investment policies require the duration range for the Bond Fund not exceed plus or minus 15 percent of the Bloomberg Barclays U.S. Intermediate Credit Index. Increases in prevailing interest rates generally translate into decreases in fair values of fixed income investments. The durations of the TIPS Fund shall not exceed plus or minus 15 percent of the Bloomberg Barclays Capital U.S. Treasury Inflation Protected Securities Index.

Schedules 1 and 2 provide information about the interest rate risks associated with the DVF investments as of June 30, 2018. 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 DVF'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 DVF rated debt investments as of June 30, 2018, 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. Revised Code of Washington (RCW) 43.33A.140 requires corporate fixed income securities cost may not exceed 3 percent of the DVF fair value at the time of purchase, nor shall its fair value exceed 6 percent of the DVF Funds' fair value at any time. There was no concentration of credit risk that exceeded these limits as of June 30, 2018.

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. The DVF has no formal policy to limit foreign currency risk. All securities held in the DVF are denominated in U.S. dollars and, accordingly, no foreign currency exposure exists at June 30, 2018, or during the fiscal year.

Note 4. Securities Lending

Washington State law and WSIB policy permit the DVF 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, 2018, was approximately $12.0 million. The securities on loan remain in the Statement of Net Investment Position in their respective categories. At June 30, 2018, cash collateral received totaling $12.1 million is reported as a securities lending obligation, and the fair value of the reinvested cash collateral totaling $12.1 million is reported as security lending collateral in the Statement of Net Investment Position. Securities received as collateral where the DVFs 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. At June 30, 2018, there were no securities received as collateral. Total cash collateral held was $12.1 million.

Debt securities were loaned and collateralized by the DVF'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, 2018.

In Millions:	Total Collateral
Mortgage Backed Securities	$ -
Repurchase Agreements	2.8
Yankee CD	4.1
Commercial Paper	3.6
Cash Equivalents and Other	1.6
Total Collateral Held	**$ 12.1**

During Fiscal Year 2018, securities lending transactions could be terminated on demand by either the DVF or the borrower. As of June 30, 2018, the cash collateral held had an average duration of 16.2 days and an average weighted final maturity of 79.0 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 2018, 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, during Fiscal Year 2018 the DVFs incurred no losses resulting from a default by either the borrowers or the securities lending agents.

Note 5. Fair Value

GASB Statement No. 72, Fair Value Measurement and Application, (Statement 72) specifies a hierarchy of valuation classifications based on whether the inputs to the valuation techniques used in each valuation classification are observable or unobservable. These classifications are summarized in three broad levels listed below:

- Level 1 – Unadjusted quoted prices for identical instruments in active markets.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in markets that are active; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs other than quoted prices that are observable for the assets or liabilities (such as exchange rates, financing terms, interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks, and default rates).
- Level 3 – Valuations derived from valuation techniques in which significant inputs or significant value drivers are unobservable.

Inputs used to measure fair value might fall in different levels of the fair value hierarchy; in which case, the DVFs defaults to the lowest level input that is significant to the fair value measurement of each investment, with Level 3 being the lowest level. The determination of fair value of an investment within the hierarchy of classifications above is not necessarily an indication of the risk or liquidity associated with the investments. In determining the appropriate levels, the WSIB performed a detailed analysis of the assets and liabilities that are subject to Statement 72. Valuation policies and procedures are managed by the Investment and Financial Services unit of the WSIB, which regularly monitors fair value measurements. Fair value measurements are prepared and reviewed monthly, and any third party valuations are reviewed for reasonableness and compliance with relevant accounting standards.

The DVFs receive fair value prices for debt securities directly from their custodian bank, State Street Corporation (SSC). These prices are obtained from reputable pricing sources with the primary vendor of Interactive Data Corporation. SSC performs the following tolerance and review checks on the pricing data on a daily basis:

Fixed Income

- Researches price changes from the previous day of 2 to 5 percent or greater, with corroborating evidence required from the primary pricing vendor.
- Prices that remain unchanged in excess of ten days are sent to the appropriate vendor for review and verification.

The following table presents fair value measurements as of June 30, 2018:

		Fair Value Measurements Using:		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
INVESTMENTS				
DEBT SECURITIES				
Corporate Bonds	$ 1,384,431,501	$ -	$ 1,384,431,501	$ -
U.S. and Foreign Government and Agency Securities	497,924,705	-	497,924,705	-
Total Debt Securities	1,882,356,206	-	1,882,356,206	-
Total Investments Measured at Fair Value	$ 1,882,356,206			
OTHER ASSETS (LIABILITIES) AT FAIR VALUE				
Collateral Held Under Securities Lending Agreements	$ 12,118,427	$ -	$ 12,118,427	$ -
Obligations Under Securities Lending Agreements	(12,118,427)	-	(12,118,427)	-
Total Other Assets (Liabilities) Measured at Fair Value	$ -	$ -	$ -	$ -

Debt Securities (Level 2)

Investments classified as Level 2 in the above table were comprised of publicly traded debt securities. These securities are sourced from reputable pricing vendors, using models that are market-based measurements representing their good faith opinion as to the exit value of a security, in an orderly transaction under current market conditions. Such models take into account quoted prices, nominal yield spreads, benchmark yield curves, prepayment speeds, and other market corroborated inputs.

Other Assets and Liabilities

Collateral held and obligations under securities lending agreements are detailed in Note 4 to the basic financial statements. Cash collateral securities (and the offsetting obligation) are valued by the DVF's lending agent and sourced from reputable pricing vendors, using models that are market-based measurements representing their good faith opinion as to the exit value of a security, in an orderly transaction under current market conditions. Such models take into account quoted prices, nominal yield spreads, benchmark yield curves, prepayment speeds, and other market corroborated inputs.

Note 6. Summary of Investment Policy

Under RCW 43.33A.030, trusteeship of the DVF 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 portfolios are managed to achieve a maximum return at a prudent level of risk.

Bond Fund

The fund is actively managed to meet or exceed the return of the Bloomberg Barclays U.S. Intermediate Credit Index given a similar level of risk. 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 investments include any and all fixed income securities unless specifically prohibited. The portfolio shall be made up of large, liquid credit bonds to provide for daily pricing and to meet all participant withdrawals. The duration range shall not exceed plus or minus 15 percent of the Bloomberg Barclays U.S. Intermediate Credit Index. Exposure to any corporate issuer will not exceed 3 percent of the fund's market value.

Savings Pool

The primary objective for the fund is to ensure the preservations of principal, defined as the maintenance of a one-dollar net-asset value. The fund must hold sufficient cash to meet any withdrawal requests. The fund will attempt to earn the highest return possible, consistent with maintaining the first two objectives of safety and liquidity. In general, the fund will strive to earn a return in excess of U.S. Treasury Securities of similar maturities. A minimum of 1 percent of the savings pool funds should be retained in cash. Credit eligibility guidelines have been established for GICs and include: issuer must hold a certificate of authority in Washington State, have an Insurance Financial Strength rating of A+ or equivalent, have adjusted capital and surplus of at least $250 million, and contracts with any one company should not exceed 5 percent of that company's capital and surplus. The total principal value of term contracts by an issuer shall not exceed 20 percent of the Savings Pool upon execution of a new contract with that issuer. The maximum maturity of any GIC will not exceed seven years. The portfolio must have a weighted average maturity of four years or less.

TIPS Fund

The investment objectives of the TIPS Fund includes maintaining safety of principal, maximizing return at a prudent level of risk, and investing in a manner that will not compromise public trust. The fund is actively managed to meet or exceed the return of the Bloomberg Barclays Capital U.S. Treasury Inflation Protected Securities Index. Permissible investments include any and all U.S. TIPS and cash. The durations of the portfolio shall not exceed plus or minus 15 percent of the Bloomberg Barclays Capital U.S. Treasury Inflation Protected Securities Index, other than during short periods of time while managing stakeholder cash flows.

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
Corporate Bonds	$ 1,384,431,501	$ 48,976,790	$ 777,968,857	$ 557,485,854	$ -	4.3	Schedule 2
U.S. Government and Agency Securities	321,210,978	-	165,723,806	116,330,213	39,156,959	4.6	Aaa
Guaranteed Insurance Contracts	762,460,812	111,548,030	650,912,782	-	-	N/A	Not Rated
Foreign Government and Agencies	176,713,727	17,932,328	68,408,472	90,372,927	-	4.6	Schedule 2
	2,644,817,018	$ 178,457,148	$ 1,663,013,917	$ 764,188,994	$ 39,156,959		

Investments Not Required to be Categorized	
Cash and Cash Equivalents	214,657,298
Total Investments Not Categorized	214,657,298
Total Investments	$ 2,859,474,316

* Excludes cash and cash equivalents

Schedule 2: Additional Credit Rating Disclosures

Moody's Equivalent Credit Rating	Corporate Bonds	Foreign Government and Agency Securities
Aaa	$ 44,886,210	$ 28,776,950
Aa1	13,767,632	9,802,570
Aa2	24,156,668	22,605,271
Aa3	108,599,495	23,440,411
A1	251,935,150	58,257,635
A2	154,095,459	-
A3	201,507,007	-
Baa1	175,411,499	19,397,500
Baa2	158,242,041	14,433,390
Baa3	213,272,304	-
Ba1 or Lower	38,558,036	-
Total	$ 1,384,431,501	$ 176,713,727

CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Members of the Washington State Investment Board
Olympia, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Daily Valued Funds as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Daily Valued Funds' financial statements, and have issued our report thereon dated September 24, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Daily Valued Funds' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Daily Valued Funds' internal control. Accordingly, we do not express an opinion on the effectiveness of the Daily Valued Funds' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during

our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Daily Valued Funds' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Daily Valued Funds' internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Daily Valued Funds' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Boise, Idaho
September 24, 2018

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