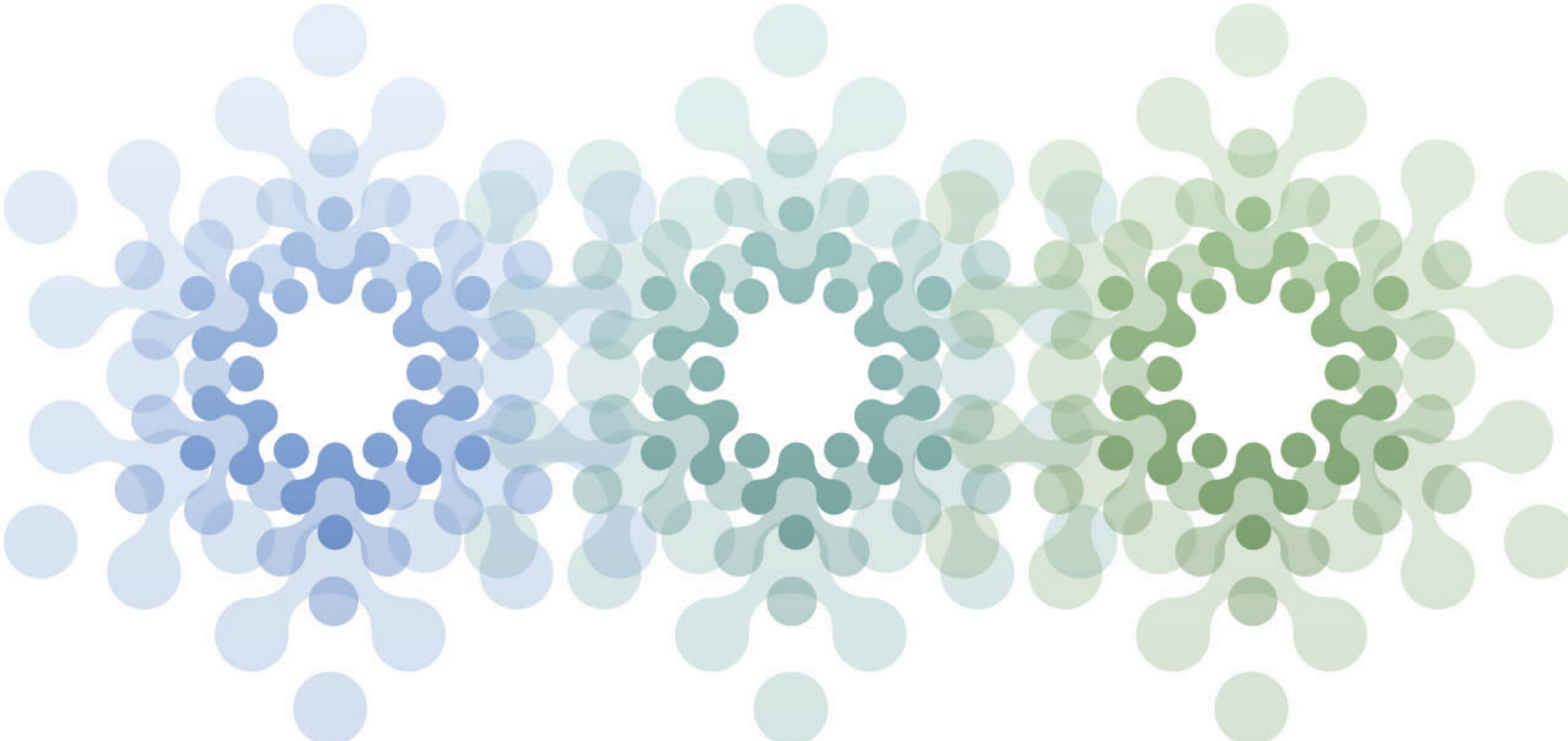
Washington State Investment Board



THIRTY-EIGHTH ANNUAL REPORT 2019

INTRODUCTION

LETTER OF TRANSMITTAL

Our investment climate – not unlike the shifting climate in our natural world – is undergoing continuous change as we mark the end of Fiscal Year (FY) 2019. In our world, the gyrations of change come mostly in two forms: market volatility and geopolitical tensions. At present, both have the potential to influence the risks and returns of our investment assets.

In serving as a public fiduciary for Washington state's retirement plans and other public trust funds, the Washington State Investment Board (WSIB), has navigated the shifting investment climate with a steadfast "financial first" philosophy and a consistently diversified global investment strategy. The result has allowed the WSIB to generate top-decile performance among public pensions while contributing to one of the best funded state retirement plans in the nation. For the 12 months ending June 30, 2019, our commingled trust fund (CTF) returned 8.4 percent. More importantly, the same fund has generated an annual return of 8.8 percent since its inception in 1992.

Our Board members and staff are proud of this achievement, yet we know that looking backward won't serve us nearly as well as looking forward. By looking no further than recent months, we can see that record-setting market volatility has become a new normal for investors. The 4th quarter of 2018 saw public equities in the world's developed economies return -14.0 percent – most of it during December. Immediately thereafter, the 1st quarter of 2019 brought a whipsaw reversal as the same markets surged 12.6 percent in a similar time period. This dizzying short-term volatility can induce anxious days and sleepless nights for many investors.

Even more remarkable these days is the volatility occurring in the world's geopolitical climate. Ongoing trade policy disputes between the U.S. and China have captured world attention because a battle between these economies affects everyone from tech firms in Tacoma to the wineries in Walla Walla. Other uncertainties come in the form of the U.K.'s continuing policy debacle with Brexit, cryptic diplomatic talks with North Korea, a failed populist uprising in Venezuela, new election outcomes in Australia and India, slowly emerging economies in Africa, and renewed tension in the Persian Gulf region. It seems no place in the world, including our own country and community, is exempt from the rattling effect of geopolitical forces.

In addition, environmental, social and governance (ESG) issues have become an important factor of reckoning for all investors – especially public retirement plans. When coupled with actuarial assumptions pointing to gradually lower market returns, the impact of ESG factors such as climate change, diversity and corporate pay equity mean that any long-term investment discipline will find itself under increased stress in the years and months ahead.

The good news is that our Board members and staff recognize that discipline and investment performance -- by virtue of their role in the sustainability of retirement plans – create their own vital form of social impact. We know we must work hard to measure and understand the materiality of change in all forms – physical and human – in order to fulfill a mission of maximizing return at prudent levels of risk. Our workplaces, our homes and our world are undergoing change and transition at what feels like an accelerating rate.

In this atmosphere, we also understand that the performance and risk management capabilities of our funds will make help make a meaningful difference in the future lives of our beneficiaries.

Sincerely,

Theresa Whitmarsh, Executive Director

MESSAGE FROM THE CHAIR

As chair of the Washington State Investment Board, I am pleased to present the WSIB's Annual Report for the fiscal year ending June 30, 2019.

It's both an honor and an education to be serving as fiduciary for one of the top-performing state retirement and public trust funds in the country. The honor is based on doing our part to ensure sufficient investment outcomes for our retirement plan beneficiaries and other stakeholders. The educational aspect of this work involves listening to and learning from our partners and investment experts from around the globe.

On a personal note, one of my passions is financial literacy. Building literacy on financial matters creates valuable lifetime skills. Good financial decisions also can help with quality of life while we are working. Pensions are one important piece of dignity in retirement, which is central to our role as overseers of the WSIB funds.

Our Board members take very seriously our responsibility for setting policy and overseeing strategy along with our staff's execution of a global investment program. Our program generates peer-leading investment performance (8.8 percent annual return since inception) that helps defray the contribution costs for our state agencies, our taxpayers and the state Legislature. We create a resilient system when we align these strong investment returns with prudent employer/employee contributions, all in support of benefits to our public employees, state workers, firefighters, police officers, judges and students.

As of the end of Fiscal Year 2019, the WSIB is managing more than $139 billion in total assets, including more than $109 billion in the CTF for retirement plans. Our state's retirement system, which includes 17 different retirement plans at various funding levels, is well-funded when compared to other state systems. Our state actuary expects our retirement system's overall funding status will exceed 100 percent by the end of Fiscal Year 2022, if we consider all plan assets and liabilities in aggregate. That's an extremely healthy position.

Beyond the balance sheet, our Board members also take very seriously our response to and management of non-financial issues, some of which can have material impact on investment outcomes. Many issues arise because our investments are part of virtually every sector of the broad public and private markets. Labor issues, public safety, human capital issues, and environmental concerns – they all come into play when interested parties ask the WSIB to act in support (or opposition) to a specific agenda. On all such issues, we seek to understand and listen. We also have developed a purposeful protocol that allows the Board to sort through issues and respond with a single, thoughtful voice based on facts and material impact to our investment strategies. Ultimately, our Board understands the overriding need to remain deliberately focused on our mission and the investment relevance of all issues.

Finally, I can attest that each of our Board members genuinely care first and foremost about our beneficiaries and the stakeholders. Our staff provides the hard work, clear recommendations and robust due diligence necessary for fulfillment of our duties. It's this combination of a high degree of caring and competency that is the true strength of our investment program.

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

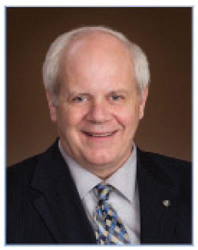
The Audit Committee has oversight of audits of Board activities and operations: compliance, risk management, internal/external audits, financial reporting, and internal controls. It is also responsible for development of policies and procedures for corporate governance and oversight of the Conflict of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

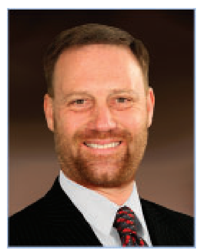

Tracy Guerin


Joel Sacks
Vice-Chair


Greg Markley


Judy Kuschel
Chair


Yona Makowski


Stephen Miller

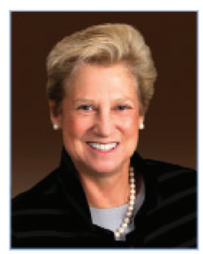

Arlista D. Holman


Representative
Timm Ormsby


Senator
Mark Mullet


David Nierenberg


William A. Longbrake


Ada Healey


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.

Vacant

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, legal services, 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 relations, 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

Actis
Advent International
Affinity Equity Partners
Alta Communications
Apax Partners
Apex Investment Partners
Austin Ventures
Banc Funds
Battery Ventures
BC Partners
BGH Capital
Blackstone Group
Bridgepoint Capital
Canaan Partners
Carlyle Group
CDH Investments
Centurium Capital
Charterhouse Capital Partners
Cinven Ltd.
Denham Capital
Edgewater Funds
EIG Global Energy Partners
El Dorado Ventures
Endeavour Capital
Essex Woodlands
First Reserve Corp.
Fisher Lynch Capital
Fortress Investment Group
FountainVest Partners
Francisco Partners
Frazier & Co.
Friedman Fleischer & Lowe
GI Partners
GTCR
H.I.G. Ventures
HarbourVest Partners
Hellman & Friedman
Insight Venture Partners
Intersouth Partners
Kohlberg Kravis Roberts & Co.
KSL Capital Partners
Leonard Green & Partners
Madison Dearborn Partners
MatlinPatterson Global Advisors
Menlo Ventures
Mobius Venture Capital
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
Searchlight Capital Partners
Sequoia Capital
Silver Lake Partners
Southern Cross Group
Spark Mgmt. Partners
Stone Point Capital
TA Associates
Tailwind Capital Partners
Technology Crossover Ventures
The Riverside Company
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
Crane Capital
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
Arable Capital
Barings
EnerVest, Ltd
Geronimo Energy
Global Infrastructure Partners
Homestead Capital
I Squared Capital
International Farming Corporation
KKR & Co
Laguna Bay Pastoral Company
Lime Rock Resource
Oaktree Capital Management
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.

CORPORATE GOVERNANCE

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.

During FY 2019, the WSIB reviewed, updated and released revised Proxy Voting Policy and Guidelines. This review process involved discussion and input from corporate governance staff, WSIB management and the Audit Committee, with final sign-off from the full Board. The most material update to the policy was to strengthen the language and voting policies in support of board diversity at investee companies.

The WSIB also enhanced its engagement activities with investee companies in FY 2019, primarily through peer networks, including involvement with the Thirty Percent Coalition, the Climate Action 100+ and the CDP (formerly the Climate Disclosure Project). Staff were also involved in roundtable engagements with public companies both at the Society for Corporate Governance 2019 annual conference and the Council of Institutional Investor (CII) fall 2018 conference.

One 2019 proxy season trend included a continued decrease in the number of shareholder proposals (SHPs) going to a vote, partially due to improved engagement between investors and investee companies. Another reason for this decline is the Securities and Exchange Commission (SEC) increasingly flexing its ability to exclude SHPs from the proxy ballot based on defined parameters. The decline in SHPs going to a vote has been evident since at least 2015. However, shareholder support of SHPs remained relatively flat between 2018 and 2019 at an average of approximately 32.5 percent.

Other 2019 proxy season trends included an increase in opposition to directors (with 68 directors failing to receive majority shareholder support, up from 51 in 2018 and 60 in 2017) and a continued focus on board diversity, according to Glass Lewis data.

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 viewed as a more responsible, more effective approach.

Proxy voting is a constructive means of influence and input for the WSIB, and engagement reinforces those stewardship priorities. Between July 1, 2018 - June 30, 2019, the WSIB voted on 3,066 meetings globally, including 2,779 in the U.S. Proxy votes were cast on 26,910 individual proposals. These votes involved issues such as the election of directors, ratification of auditor, compensation-related matters and shareholder proposals. During that period, the WSIB withheld or voted against the management recommendation as follows:

- 1,280 of 18,323 of individual director election proposals (7.0 percent)
- 345 of 2,252 advisory votes on executive compensation (15.3 percent)
- 10 of 225 equity compensation plans (4.4 percent)

ANNUAL BUDGET

OBJECTS OF EXPENDITURE

APPROPRIATED	Budget	Expenditures	Budget Variance
Salaries	$ 16,838,558	$ 14,815,999	$ 2,022,559
Benefits	4,457,342	3,956,325	501,017
Professional Service Contracts	266,638	539,440	(272,802)
Goods and Services	3,234,415	4,049,301	(814,886)
Travel	1,303,727	600,344	703,383
Equipment	110,250	161,498	(51,248)
Treasury Note	160,199	160,199	-
Subtotal Appropriated	$ 26,371,129	$ 24,283,106	$ 2,088,023

NON-APPROPRIATED *	Budget	Expenditures	Budget Variance
Public Equity	$ 58,473,000	$ 61,581,758	$ (3,108,758)
Private Equity	239,869,000	289,841,294	(49,972,294)
Real Estate	51,026,000	35,838,437	15,187,563
Tangible Assets	28,809,000	64,551,465	(35,742,465)
Innovation Portfolio	4,551,000	3,755,636	795,364
General Consultants	1,515,000	496,422	1,018,578
Staff Consultants and Contractual Services	1,345,000	799,949	545,051
Advisory Services Consultants	500,000	-	500,000
Legal Fees	2,930,000	1,771,426	1,158,574
Custodian Bank Fees	500,000	177,702	322,298
Securities Lending	7,111,000	5,968,496	1,142,504
Cash Management	4,093,000	3,811,587	281,413
Cash Overlay	900,000	549,127	350,873
Portfolio Verification - Shadow Investment Accounting System	1,403,000	660,120	742,880
Memberships	217,000	161,588	55,412
Research Services and Analytical Tools	2,849,000	3,304,400	(455,400)
Subtotal Non-Appropriated	406,091,000	473,269,407	(67,178,407)
TOTAL	$ 432,462,129	$ 497,552,513	$ (65,090,384)

* Investment management fees for the asset classes are fixed at the time contracts are signed.
The variability in cost is a function of asset values, investment contribution, and distribution pace, none of which can be controlled by the WSIB budget.

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 explain 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 seven broad-based asset classes: public equity, fixed income, private equity, real estate, tangible assets, innovation portfolio 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 $101.6 billion to $110.0 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.

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 Index.

The yield on the 10-year treasury started the fiscal year at 2.9 percent, increased to 3.2 percent during the fall and fell to 2.7 percent at the end of calendar 2018. The yield was steady through the winter then moved down through the spring and early summer, finishing at 2.0 percent on June 28, 2019. The yield was at a low of 2.0 percent in late June 2019 and a high of 3.2 percent in October and November 2018.

Highlights

- The portfolio outperformed the Barclays U.S. Universal Index for the fiscal year, returning 9.2 percent versus 8.1 percent for the index. Within the portfolio, credit bonds were over-weighted, U.S. government bonds were underweighted, and securitized bonds were underweighted.
- Transactions totaled $5.5 billion in purchases and $3.3 billion in sales.
- During the fiscal year, $900 million in cash was transferred out of fixed income to other asset classes.

Tangible Assets

The tangible assets portfolio invests in 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 was established as a separate asset class in 2007 and implemented in 2008. Today, the portfolio is a well-diversified, global portfolio with a variety of partners spread among the target sectors, each investment targeting varying levels of risks.

Highlights

- The WSIB approved 8 new commitments totaling $1.875 billion including co-investments
- The portfolio received approval for a small allocation to public equites and increased the amount available for co-investments
- $1.6 billion of committed capital was drawn during the fiscal year
- $552 million in distributions were returned to the WSIB
- The portfolio has a target allocation of 7 percent and reached 5 percent of the CTF in June 2019

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—a 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

- Two new commitments totaling $1.15 billion were made
- $3.05 billion of capital was drawn down for investments
- $2.47 billion in distributions were returned to the WSIB

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, and emerging markets equity mandates are primarily actively managed. 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.

The public equity program is designed to protect capital in periods of negative or volatile returns while keeping pace during periods of positive returns. It therefore makes sense that the public equity portfolio outperformed in a year like FY 2019 when global equity markets vacillated between strongly negative and strongly positive. Long-term performance continues to be the focus for public equity staff, and the program has generally 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

- Following a year of strong positive returns in FY 2018, global equity markets posted more modest gains of 4.9 percent in FY 2019, compared to 11.5 percent and 19.4 percent in the previous two fiscal years.
- U.S. equity markets again outperformed both non-U.S. developed and emerging markets, returning 9.0 percent year over year. The U.S. equity program lagged the index with a return of 8.5 percent versus the benchmark's 9.0 percent return. The underperformance was driven primarily by weak performance by our investment in a fundamentally-weighted U.S. index, which returned 6.4 percent, trailing the broader U.S. market.
- The developed international equity program outperformed its benchmark returning 0.9 percent while the benchmark had a 0.2 percent return. Strong results from our non-U.S. developed markets active manager during the period drove most of the outperformance.
- The active global equity program outperformed the benchmark returning 8.2 percent versus the benchmark return of 4.9 percent. Allowing the skilled active managers to choose the best stocks, wherever they are in the world, presented the best return opportunities long term. These active global managers were able to strongly outperform in a volatile year, protecting both in down periods and outperforming in positive periods.
- The emerging markets equity program outperformed its benchmark returning 2.0 percent versus the benchmark return of 0.5 percent. WSIB's emerging market managers employ a disciplined investment approach that includes attention to valuation levels. The result of this attention to valuation has been a significant underweight to information technology stocks in China such as TenCent and Alibaba, which over longer-periods had been a drag on portfolio performance. During FY 2019, however, value strongly outperformed growth in emerging markets, and created a tailwind for our active emerging markets managers.

Private Equity

The objective of the private equity program is 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 high-quality general partners. The portfolio is managed to a model portfolio to ensure adequate diversification by general partner, strategy type and geography.

As of June 30, 2019, the private equity portfolio was valued at $24.4 billion, or 22.2 percent of the CTF, compared with $21.8 billion and 21.4 percent at the previous fiscal year-end. The portfolio's increase in value from the prior year reflects the appreciation in the value of portfolio investments, as capital contributions into the portfolio were offset by distributions received from portfolio liquidity events during the period. This was the first year since 2011 that distributions did not significantly exceed capital contributions.

During the fiscal year, the WSIB closed on $6.9 billion of new commitments across 18 private equity funds, two of which represented new general partner relationships. Capital contributed for investment was approximately equal to that of the previous fiscal year. However, distributions from portfolio company liquidations, while still relatively strong, were approximately $1.1 billion lower than distributions in the prior fiscal year.

Private equity fundraising activity remained strong during the year, and investment activity was again robust as low interest rates and accommodative credit markets provided a good environment for financing acquisitions. However, purchase price multiples for new investments are at historically high levels. Public equity markets have remained generally strong, albeit with increasing volatility.

Highlights

- $6.9 billion in new commitments to funds were closed during FY 2019, approximately equal to the $6.9 billion closed in FY 2018.
- $4.5 billion of capital was contributed for investment during the fiscal year, approximately equal to the $4.5 billion in the prior year.
- $4.5 billion in distributions were returned to the CTF in FY 2019 compared to $5.6 billion distributed in FY 2018.

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 an impact equity fund was approved and executed 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: Public Employees' Retirement System (PERS), State Empolyees' Retirement System (SERS), Teachers' Retirement System (TRS), 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: $3.3 Billion

SERS 3: $2.2 Billion

TRS 3: $9.7 Billion

DCP: $4.7 Billion

JRA: $9.3 Million

Labor and Industries' (L&I) Funds

$18.6 Billion

The WSIB manages industrial insurance funds on behalf of the Department of Labor and Industries. 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 global equity depending on each funds' policy regulations.

Guaranteed Education Tuition (GET) Fund

$1.4 Billion

The 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 Washington Student Achievement Council. The WSIB serves as trustee for the funds and invests them in a mix of short-term holdings, fixed income, and global equity.

Developmental Disabilities Endowment Trust Fund (DDEF)

$72.5 Million

DDEF supports individuals with developmental disabilities through private contributions and public appropriations. The WSIB invests the fund in a mix of short-term holdings, fixed income, and global equity.

Washington State Opportunity Scholarship (WSOS) Fund

$104.6 Million

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

Daily Valued Funds

Bond Fund $1.9 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 Bloomber Barclays Intermediate Credit Index.

Savings Pool $888 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 $367 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 Bloomber Barclays 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, 2019, 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, 2019.

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.

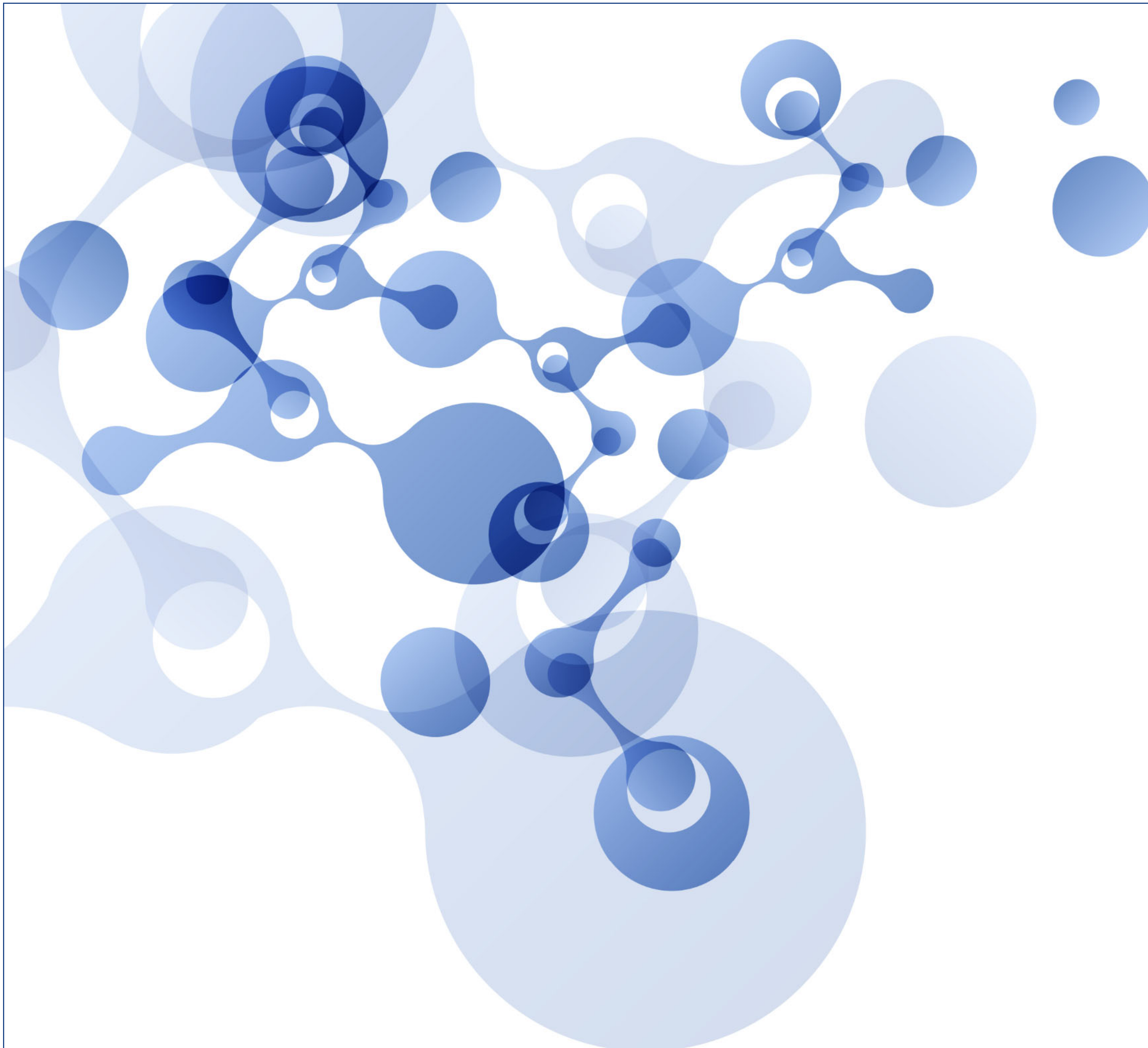
Contacting WSIB's Financial Management

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 FUNDS

EideBailly
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 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, 2019, 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, 2019, 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 Retirement Fund include investments valued at $50.3 billion (46% of total investments) as of June 30, 2019, 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 25, 2019 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 25, 2019

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, 2019. 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, 2019. The following table compares the net investment position of each major investment classification at June 30, 2019 with those at June 30, 2018. In addition, the table summarizes the changes in each major investment classification for the fiscal year and compares 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 Retirement Funds' financial statements.

As shown in the following table the net investment position of the Retirements Funds increased by $8,400.4 million during the fiscal year ended June 30, 2019. Net withdrawals from the Retirement Funds during the current fiscal year decreased net investment position by $543.4 million. Net investment income increased net investment position by $8,943.8 million and was reinvested in the various asset classes of the Retirement Funds.

Net investment income increased by $83.8 million during the current fiscal year as compared to the prior year, mainly from large increases in net realized and unrealized gains and losses and investment income generated from corresponding increases in invested balances. The current fiscal year return for the Retirement Funds was 8.4 percent compared to the prior fiscal year return of 10.2 percent. The decrease in total returns was largely due to substantial decrease in investment returns in both the equity and alternative asset portfolios. The WSIB audited financial statements include market value adjustments for alternative assets as of June 30, 2019. 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 amount of market appreciation included in the audited financial statements as of June 30, 2019 which is not reflected in the official published retirement fund performance return of 8.3 percent is $1.7 billion.

Net withdrawals from the Retirement Funds decreased by $65.5 million from the previous fiscal year. During the current fiscal year, there was an 8 percent increase in covered payroll (the base salary used to compute contributions) and purchases of additional annuities at retirement by members of the plans. Accordingly, Department of Retirement Systems (DRS) had a significant increase in revenue during the current fiscal year, which reduced the need to liquidate investments to meet pension benefit payment requirements.

RETIREMENT FUNDS

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.

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 pending trade balances 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, 2019					Fiscal Year End June 30, 2018					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 (*)	$ 1,614.3	$ 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%
Investment Income:												
Interest, Dividends, and Other Investment Income	37.7	806.3	649.5	977.9	2,471.4	21.5	705.5	599.8	993.2	2,320.0	151.4	6.5%
Realized and Unrealized Gains	112.0	1,189.0	1,410.1	4,517.9	7,229.0	13.8	(783.3)	3,348.5	4,487.0	7,066.0	163.0	2.3%
Less: Investment Expenses	(20.7)	(9.8)	(73.0)	(653.1)	(756.6)	(19.6)	(4.6)	(74.9)	(426.9)	(526.0)	230.6	43.8%
Net Investment Income	129.0	1,985.5	1,986.6	4,842.7	8,943.8	15.7	(82.4)	3,873.4	5,053.3	8,860.0	83.8	0.9%
Net Amount Withdrawn	(543.4)	-	-	-	(543.4)	(608.9)	-	-	-	(608.9)	(65.5)	-10.8%
Transfers Between Asset Classes	100.8	(900.0)	(1,251.7)	2,050.9	-	749.6	4,900.0	(4,730.4)	(919.2)	-	NA	NA
Ending Net Investment Position (*)	**$ 1,300.7**	**$ 22,900.3**	**$ 35,424.4**	**$ 50,360.6**	**$ 109,986.0**	**$ 1,614.3**	**$ 21,814.8**	**$ 34,689.5**	**$ 43,467.0**	**$101,585.6**	**$ 8,400.4**	**8.3%**

	Cash and Cash Equivalents	Debt Securities	Equity Securities	Alternative Assets	Total
Increase (Decrease) in Net Investment Position	**$ (313.6)**	**$ 1,085.5**	**$ 734.9**	**$ 6,893.6**	**$ 8,400.4**
Percent Change in Net Investment Position	**-19.4%**	**5.0%**	**2.1%**	**15.9%**	**8.3%**
One Year Time Weighted Return - June 30, 2019	**2.1%**	**9.2%**	**6.0%**	**9.8%**	**8.4%**
One Year Time Weighted Return - June 30, 2018	**1.3%**	**0.0%**	**11.4%**	**14.7%**	**10.2%**

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
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 decreased by $313.6 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, 2019, net of the returns in the overlay program, were 2.1 percent. The substantial increase over the prior year return of 1.3 percent increased interest income net of expenses by $15.1 million as compared to the prior fiscal year. Short-term rates moved considerably higher over the last year as a result of Federal Reserve actions. The Federal Reserve increased the target range for the federal funds rate two times during this fiscal year for a total of 50 basis points. The net investment position of cash and cash equivalents include accrued income and accrued expenses.

Net realized and unrealized gains within the cash portfolio reflect the activity in the cash overlay program and are included in net investment income in the preceding table. The cash overlay program had a return of 9 basis points in the current fiscal year, as compared to the prior year return of zero basis points. The substantial increase in returns resulted in an increase of $98.2 million in net realized and unrealized gains within the cash portfolio.

The overlay program began the fiscal year primarily invested in global equity futures and forward currency contracts. In early November 2018, the overlay program began tilting its exposure to fixed income futures. For the majority of 2019, the overlay program was overweight in fixed income relative to global equities. The size of the overlay exposure varies in response to the amount of cash the CTF holds. During Fiscal Year 2019, the average exposure was 1.6 percent, with a low-high range of 1.1 percent to 2.0 percent. The global equity market returned 4.9 percent as measured by the MSCI All Country World Investable Market index with U.S. gross. The fixed income market returned 8.1 percent as measured by the U.S. Bloomberg/Barclays Universal index for the year ending June 30, 2019. With the robust return in fixed income, coupled with positive global equity return, the overlay program added 9 basis points to the overall CTF return for the fiscal year ending June 30, 2019.

- ***Debt securities*** net investment position increased by $1,085.5 million. Interest income net of investment expenses of $796.5 million was reinvested in debt securities during the current fiscal year. Net realized and unrealized gains increased invested balances in this asset class by $1,189.0 million. Asset allocation rebalancing transfers were done during the year and fixed income sale proceeds of $900.0 million were used to fund capital calls in the alternative asset program. The net investment position and performance of debt securities includes $62.4 million of cash balances used for trading purposes.

The average coupon rate at June 30, 2019 was 3.7 percent for the current fiscal year, compared to the prior year rate of 3.4 percent. The increase in the average coupon rate over the previous fiscal year contributed to the increase of interest income on fixed income securities of $100.8 million.

Performance for the retirement fixed income portfolio was positive for the year at 9.2 percent, outperforming the benchmark return, the Bloomberg Barclays Capital Universal Bond Index of 8.1 percent. The outperformance was due, in part, to a shorter maturity profile than the benchmark early in the fiscal year, when rates rose, and a longer maturity profile in the second half, when rates went considerably lower. In addition, the portfolio benefitted from an overweight to investment grade credit throughout the year and strong security selection that added to portfolio return versus its benchmark. Declining interest rates significantly increased price returns. Consequently, the returns increased substantially over the prior fiscal year, which caused net realized and unrealized gains to increase by $1,972.3 million from the previous fiscal year.

The Federal Reserve raised the target interest rate in September in an effort to avoid falling behind on potential inflationary pressure. With no sign of rate increases coming to an end, sharp slowdown in eurozone business confidence, weaker Chinese growth, and rising geopolitical risks, including Brexit and trade tension between the U.S. and China, global market volatility increased significantly in December 2018. Following the May 2019 announcement that the U.S. would move forward with tariff increases on U.S. imports from China, equity markets took a large hit causing massive sell-offs in global equity. Confronted by weaker economic data, trade tensions and inflation at bay, both the Federal Reserve and the European Central Bank (ECB) indicated that they were ready to ease monetary policy and further help stimulate the economy. Easy monetary policy, weak growth, and trade concerns pushed developed market bond yields to historic lows, and in the U.S. led to yield curve inversion. This supported strong price-driven returns from fixed income during the current fiscal year.

Overall fixed income indexes had a great year with U.S. interest rates down across the curve. The broad Bloomberg/Barclays Universal Index returned 8.1 percent for the one-year period. Credit spreads widened slightly during the fiscal year, with the high yield spread ending the year at 377 basis points, up 14 basis points from previous fiscal year-end. Investment grade credits did marginally better than their high yield counterparts, with the spread narrowing 8 basis points for the one-year period, leading the corporate credit index to a robust 10.3 percent annual return.

- ***Equity securities*** net investment position increased by $734.9 million from the prior fiscal year. Dividend income net of investment expenses of $576.5 million was reinvested to equity securities during the current fiscal year. Net realized and unrealized gains increased balances in this asset class by $1,410.1 million. Asset allocation rebalancing transfers were done during the year and equity sale proceeds totaling $1,251.7 million were used to fund capital calls in the alternative asset portfolio. The net investment position and performance of equity securities includes $477.2 million of cash balances used for trading purposes.

The equity portfolio returned 6.0 percent during the current year, which was a substantial decrease over the prior year return of 11.4 percent. This decrease in returns resulted in a decrease of net realized and unrealized gains of $1,938.4 million from the prior fiscal year.

The CTF invests equities in a global context which includes U.S., non-U.S. developed, and emerging market securities. The majority of equity investments in the CTF are passively managed. However, over 40 percent of the equity portfolio was invested with active managers as of June 30, 2019. The total portfolio posted returns of 6.0 percent during the fiscal year, outperforming its global benchmark by over 100 basis points, which had returned 4.9 percent during the period. Breaking out aggregate market performance by region, the broad U.S equity market returned 9.0 percent, while non-U.S. developed markets gained 0.16 percent and emerging markets added 47 basis points, as measured by Morgan Stanley Capital International (MSCI) indexes, which are broad barometers of overall market returns. Investors continued to find global equities an attractive investment in a low interest rate environment, though heightened geopolitical tensions, trade conflicts, and a shaky macroeconomic backdrop noticeably increased market volatility. Dovish central bank activity around the globe managed to support equity markets in the first six months of 2019. Most regions traded higher, but, as with Fiscal Year 2018, the U.S. equity market posted better performance relative to non-U.S. developed and emerging market equities. In the U.S., smaller cap stocks generally underperformed their larger cap peers, but performed in line with the broader market.

- ***Alternative investments*** net investment position increased by $6,893.6 million. Ordinary income distributions net of investment expenses increased this asset class by $324.8 million. Net realized and unrealized gains increased balances in this asset class by $4,517.9 million. During the current fiscal year, alternative asset managers called capital and expenses of $9,945.0 million and made distributions of cash, stock, and returns of capital of $7,894.1 million. Sale proceeds from other asset classes, totaling $2,050.9 million, were used to fund the remaining capital calls and expenses.

Ordinary income net of investment expenses decreased by $241.5 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 increase in expenses can be attributed to an incentive fee payment in the real estate portfolio. The alternative asset portfolio returned 9.8 percent in the current year, which dropped significantly over the prior year return of 14.7 percent. The WSIB audited financial statements include market value adjustments for alternative assets as of June 30, 2019. 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 amount of market appreciation included in the audited financial statements as of June 30, 2019, which is not reflected in the official published performance return for alternative assets of 9.8 percent, is $1.7 billion.

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

Alternative Investment Returns *	FY 2019	FY 2018
Private Equity	12.3%	16.7%
Real Assets	8.7%	14.8%
Tangible Assets	3.1%	4.3%
Total Alternative Asset Return	**9.8%**	**14.7%**

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

Private equity distributions received during Fiscal Year 2019 totaled $4.5 billion, approximately equal to capital contributions for new investments and fund expenses for the same time period of $4.7 billion. Prior to Fiscal Year 2019, distributions had consistently outpaced capital contributions since 2011. Appreciation of the portfolio’s value reflected a continued positive trend in equity markets, albeit with increased volatility during the year. New investment activity has continued to be strong, despite purchase price multiples remaining at or near cyclical highs, as a strong fundraising environment has provided ample capital for investment and credit markets have continued to accommodate private equity transactions.

Real estate's returns for the fiscal year were driven primarily by the performance of industrial property, and secondarily by apartments, in both the U.S. and in Europe. While returns have moderated somewhat, continued strong 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 remained positive in most areas, particularly for buildings used by businesses for the distribution of goods.

The positive tangible asset return was due to a combination of income derived from the operations of the assets, and realized and unrealized capital gains from operational improvements.

As shown in the following table, securities on loan decreased by $188.9 million and collateral held under securities lending agreements decreased accordingly. Market volatility increased due to uncertainty with the China trade war, interest rate policy, and Brexit. Some equity investors remained cautiously optimistic, seeking opportunities in certain sectors, while others sought safety in high-quality liquid investments. The non-cash collateral lending activity remained steady, as dealers continued to look for increased capital efficiency trades due to the regulatory changes in the industry. The decrease in loan balances was mostly due to the lack of demand for the U.S. Government holdings in the retirement fixed income portfolio, combined with market uncertainty and name specific borrowing in the non-U.S. Equity program. Non-cash collateral loans accounted for the majority of overall loan balances in the CTF portfolios.

In Millions:	**June 30, 2019**	**June 30, 2018**	**Increase (Decrease)**	**Percent Change**
Securities on Loan Fiscal Year End	$ 2,166.9	$ 2,355.8	$ (188.9)	-8.0%
Cash Collateral Held Under Securities Lending Agreements	738.4	662.8	75.6	
Non-Cash Collateral Held Under Securities Lending Agreements	1,488.4	1,741.1	(252.7)	
Total Collateral Held	**$ 2,226.8**	**$ 2,403.9**	**$ (177.1)**	**-7.4%**

The returns of the various capital markets, within which the WSIB invests, directly impacts the fair value of the Retirement Funds net investment position. These 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.

Retirement Funds Statement of Net Investment Position - June 30, 2019

See notes to financial statement

	Commingled Trust Fund	Plan-Specific Investments	Total	Percent of Plan Assets
ASSETS				
Investments:				
CASH AND CASH EQUIVALENTS	$ 1,605,067,755	$ 210,177,619	$ 1,815,245,374	1.7%
DEBT SECURITIES				
Mortgage and Other Asset Backed Securities	1,475,135,202	-	1,475,135,202	
Corporate Bonds	12,528,856,542	-	12,528,856,542	
U.S. Government and Agency Securities	6,857,550,199	-	6,857,550,199	
Foreign Government and Agency Securities	1,992,129,286	-	1,992,129,286	
Total Debt Securities	22,853,671,229	-	22,853,671,229	20.8%
EQUITY SECURITIES				
Common and Preferred Stock	21,044,914,080	-	21,044,914,080	
Commingled Equity Trusts and Mutual Funds	12,715,854,926	-	12,715,854,926	
Real Estate Investment Trusts	409,084,090	-	409,084,090	
Depository Receipts and Other Miscellaneous	708,372,060	-	708,372,060	
Total Equity Securities	34,878,225,156	-	34,878,225,156	31.8%
ALTERNATIVE INVESTMENTS				
Private Equity	24,374,941,244	-	24,374,941,244	
Real Estate	20,274,917,771	-	20,274,917,771	
Tangible Assets	5,643,369,971	-	5,643,369,971	
Total Alternative Investments	50,293,228,986	-	50,293,228,986	45.8%
Total Investments	109,630,193,126	210,177,619	109,840,370,745	100.0%
Collateral Held Under Securities Lending Agreements	738,396,063	-	738,396,063	
Investment Earnings Receivable	366,542,402	741,908	367,284,310	
Receivables for Investments Sold	268,202,732	-	268,202,732	
Open Foreign Exchange Contracts Receivable	4,078,421,623	-	4,078,421,623	
Total Assets	115,081,755,946	210,919,527	115,292,675,473	
LIABILITIES				
Obligations Under Securities Lending Agreements	738,396,063	-	738,396,063	
Investment Management Fees Payable	16,257,689	23,416	16,281,105	
Payable for Investments Purchased	468,868,204	-	468,868,204	
Open Foreign Exchange Contracts Payable	4,083,229,919	-	4,083,229,919	
Total Liabilities	5,306,751,875	23,416	5,306,775,291	
NET INVESTMENT POSITION	$ 109,775,004,071	$ 210,896,111	$ 109,985,900,182	

Retirement Funds Statement of Changes in Net Investment Position - Year Ended June 30, 2019

See notes to financial statements

	Commingled Trust Fund	Plan-Specific Investments	Total
Net Investment Income			
Investment Income:			
Interest, Dividends, and Other Investment Income	$ 2,462,275,491	$ 9,130,519	$ 2,471,406,010
Net Realized Capital Gains	3,188,557,559	-	3,188,557,559
Unrealized Gains	4,040,429,542	-	4,040,429,542
Less:			
Investment Expenses	(737,363,313)	(298,973)	(737,662,286)
WSIB Operating Expenses	(18,909,602)	(14,617)	(18,924,219)
Net Investment Income	8,934,989,677	8,816,929	8,943,806,606
Net Withdrawal by Retirement Plans	-	(543,396,872)	(543,396,872)
Investments in Commingled Funds	839,236,905	(839,236,905)	-
Withdrawals from Commingled Funds	(1,375,127,609)	1,375,127,609	-
Increase in Net Investment Position	8,399,098,973	1,310,761	8,400,409,734
NET INVESTMENT POSITION, JUNE 30, 2018	101,375,905,098	209,585,350	101,585,490,448
NET INVESTMENT POSITION, JUNE 30, 2019	$ 109,775,004,071	$ 210,896,111	$ 109,985,900,182

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 DRS. The financial statements present only the activity of the Retirement Funds, as managed by the WSIB. The WSIB has exclusive control of the investment of all money invested in the Retirement Funds. The financial statements do not present the financial position or the results of operations of the WSIB or 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 to the basic financial statements found in Note 9.

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, 2019 was $26.8 million and expenses associated with securities lending were $19.8 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

Schedule of Participation				
RETIREMENT PLANS:	**Commingled Trust Fund**	**Plan-Specific Investments**	**Total Plan Net Assets**	**Percent of Plan Assets**
HIGHER ED. SUPPLEMENTAL INSURANCE FUND	$ -	$ 89,551,178	$ 89,551,178	0.1%
LEOFF 1	6,027,287,408	821,346	6,028,108,754	5.5%
LEOFF 2	14,185,254,976	6,265,232	14,191,520,208	12.9%
PERS 1	7,793,272,511	6,982,326	7,800,254,837	7.1%
PERS 2/3 (DC and DB Plans)	44,352,936,474	28,428,407	44,381,364,881	40.2%
PUBLIC SAFETY EMPLOYEES 2	709,545,926	5,913,033	715,458,959	0.7%
SCHOOL EMPLOYEES 2/3 (DC and DB Plans)	7,636,579,253	12,903,980	7,649,483,233	7.0%
STATE PATROL 1	1,268,556,379	420,156	1,268,976,535	1.2%
STATE PATROL 2	90,788,802	1,103,698	91,892,500	0.1%
TEACHERS 1	5,836,969,659	4,024,076	5,840,993,735	5.3%
TEACHERS 2/3 (DC and DB Plans)	21,612,299,867	54,482,285	21,666,782,152	19.7%
VOLUNTEER FIREFIGHTERS	239,477,080	394	239,477,474	0.2%
LEOFF RETIREMENT BENEFIT IMPROVEMENT	22,035,736	-	22,035,736	TRACE
Total Net Investment Position at June 30, 2019	**$ 109,775,004,071**	**$ 210,896,111**	**$ 109,985,900,182**	**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's operating expenses are charged to the funds based upon actual costs incurred to manage the investments. The WSIB's 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	$ 56,064,982	$ 311,656	$ 56,376,638	$ 16,990,837,214
Public Equity Passive Management	2,970,818	1,044,438	4,015,256	18,433,576,064
ALTERNATIVE INVESTMENTS:				
Private Equity	266,228,827	113,000,000	379,228,827	24,416,844,961
Real Estate	298,606,415	97,000,000	395,606,415	20,300,177,490
Tangible Assets	86,279,518	21,000,000	107,279,518	5,643,357,560
CASH MANAGEMENT	2,645,468	-	2,645,468	1,300,742,017
DEBT SECURITIES	-	-	-	22,900,364,876
OTHER FEES:				
Consultants and Accounting	968,725	-	968,725	NA
Legal Fees	1,499,019	-	1,499,019	NA
Research Services	2,379,693	-	2,379,693	NA
Securities Lending Rebates and Fees	19,757,479	-	19,757,479	NA
Miscellaneous Fees	261,342	-	261,342	NA
	$ 737,662,286	$ 232,356,094	$ 970,018,380	$ 109,985,900,182

** Netted fees are included in unrealized gains (losses) in the accompanying financial statements. Alternative investments netted fees 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, 2019, the Retirement Funds had a total of $30,930.2 million in unfunded commitments in the following asset classes (in millions):

Private Equity	$	18,872.30
Real Estate		7,629.01
Tangibles		4,428.85
Total	$	30,930.16

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, 2019, 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. This 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, 2019, 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, 2019. 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, accounting for possible prepayments of principal amounts.

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, 2019 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 that 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. Additionally, no high yield issues shall exceed 1 percent of cost or 2 percent of fair value of the fund. As of June 30, 2019, there was no concentration of credit risk exceeding these policy guidelines.

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, in order 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 additional foreign currency exposure, at June 30, 2019, of $1,214.7 million invested in two emerging markets commingled equity investment trust funds.

Note 8. Securities Lending

Washington State law and WSIB policy permit the 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, 2019 was approximately $2,166.9 million. The securities on loan remain in the Statement of Net Investment Position in their respective categories. At June 30, 2019, cash collateral received, totaling $738.4 million, is reported as a securities lending obligation. The fair value of the reinvested cash collateral, totaling $738.4 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, 2019 was $1,488.4 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, 2019.

In Millions	Cash Collateral	Non-Cash Collateral	Total
Mortgage Backed Securities	$ -	$ 1,121.0	$ 1,121.0
Repurchase Agreements	246.3	-	246.3
Yankee CD	171.8	-	171.8
Commercial Paper	188.5	-	188.5
U.S. Treasuries	-	367.4	367.4
Cash Equivalents and Other	131.8	-	131.8
Total Collateral Held	**$ 738.4**	**$ 1,488.4**	**$ 2,226.8**

During Fiscal Year 2019, securities lending transactions could be terminated on demand by either the Retirement Funds or the borrower. As of June 30, 2019, the cash collateral held had an average duration of 17.82 days and an average weighted final maturity of 98.27 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 2019, 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. During Fiscal Year 2019, 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 WSIB's Investment and Financial Services unit, which regularly monitors fair value measurements. Fair value measurements are prepared and reviewed monthly. 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, 2019:

		Fair Value Measurements Using:		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
INVESTMENTS				
DEBT SECURITIES				
Mortgage and Other Asset Backed Securities	$ 1,475,135,202	$ -	$ 1,475,135,202	$ -
Corporate Bonds	12,528,856,542	-	12,528,856,542	-
U.S. and Foreign Government and Agency Securities	8,849,679,485	-	8,849,679,485	-
Total Debt Securities	22,853,671,229	-	22,853,671,229	-
EQUITY SECURITIES				
Common and Preferred Stock	21,044,914,080	21,023,162,887	20,424,800	1,326,393
Depository Receipts and Other Miscellaneous	708,372,060	690,128,466	18,220,820	22,774
Mutual Funds and Exchange Traded Funds	2,750,517	2,750,517	-	-
Real Estate Investment Trusts	409,084,090	409,084,090	-	-
Private Equity and Tangible Asset Funds	146,972,889	146,972,889	-	-
Total Equity Securities	22,312,093,636	22,272,098,849	38,645,620	1,349,167
Total Investments By Fair Value Level	45,165,764,865	22,272,098,849	22,892,316,849	1,349,167
INVESTMENTS MEASURED AT NET ASSET VALUE				
Private Equity	24,370,397,278			
Real Estate	20,274,917,771			
Tangible Assets	5,500,941,048			
Collective Investment Trust Funds (Equity Securities)	12,713,104,409			
Total Investments at Net Asset Value	62,859,360,506			
Total Investments Measured at Fair Value	$ 108,025,125,371			
OTHER ASSETS (LIABILITIES) AT FAIR VALUE				
Collateral Held Under Securities Lending Agreements	$ 738,396,063	$ -	$ 738,396,063	$ -
Net Foreign Exchange Contracts Receivable - Forward and Spot	(4,808,296)	-	(4,808,296)	-
Net Swap Contracts	1,918,808	-	1,918,808	-
Margin Variation Receivable - Futures Contracts	22,566,377	22,566,377	-	-
Obligations Under Securities Lending Agreements	(738,396,063)	-	(738,396,063)	-
Total Other Assets (Liabilities) Measured at Fair Value	$ 19,676,889	$ 22,566,377	$ (2,889,488)	$ -

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 $50.3 billion (46 percent of total investments) as of June 30, 2019. 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, 2019 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	$ 4,543,966	$ -	$ 142,428,923	$ 146,972,889	0.3%
Less than 3 years	99,069,381	17,259,104	167,404	116,495,889	0.2%
3 to 9 years	3,368,752,648	1,672,265,899	849,062,365	5,890,080,912	11.7%
10 years and over	20,902,575,249	18,585,392,768	4,651,711,279	44,139,679,296	87.8%
Total	$ 24,374,941,244	$ 20,274,917,771	$ 5,643,369,971	$ 50,293,228,986	100.0%

Private Equity Limited Partnerships

This includes 299 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 34 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 48 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. 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, 2019, 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, 2019, the Retirement Funds counterparty risk was approximately $30.9 million. The majority of the counterparties (70 percent) held a credit rating of Aa3 or higher 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. They 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 to 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 possibility of 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, 2019, the Retirement Funds had outstanding forward currency contracts with a net unrealized loss of $4.8 million. At June 30, 2019, 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 $4,028.7 million and $4,033.5 million, respectively. The contracts have varying settlement dates, ranging from July 1, 2019, to June 17, 2020.

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 allow 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 17, 2019 and September 20, 2019. The values 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 $178.6 million at June 30, 2019. 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, 2019 - Investment Derivative Amount	Notional
FUTURES CONTRACTS:				
Bond Index Futures	Investment	$ 20,669,346	$ 3,825,384	115,200,000
Equity Index Futures	Investment	91,445,810	18,740,993	107,482,626
		$ 112,115,156	$ 22,566,377	222,682,626
FORWARD CURRENCY CONTRACTS	Investment	$ 4,823,674	$ (4,812,232)	4,009,444,980
TOTAL RETURN SWAP CONTRACTS:				
Total Return Swaps Bond	Investment	$ (3,040,135)	$ (563,802)	57,418,956
Total Return Swaps Equity	Investment	(1,696,681)	1,492,935	(110,314,908)
		$ (4,736,816)	$ 929,133	(52,895,952)

Note 11. Dollar Weighted Returns

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

	Dollar Weighted Return
2019	8.85%
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%

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 were no violations of these investment restrictions during Fiscal Year 2019.

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 allocation. It is anticipated the optimal target allocation will be reached sometime in calendar year 2019. 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. markets, and emerging markets. The program has a global benchmark of 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 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 global family of fixed income indices.
- Investment Grade Asset Backed Securities as defined by Bloomberg Barclays global family of fixed income indices.
- Investment Grade Commercial Mortgage Backed Securities as defined by Bloomberg Barclays 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 prohibits 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 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 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, provided it 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 while meeting 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, based on 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 and is 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 the 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 five 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 structures of the investments are primarily targeted to those publicly traded securities, 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

Investment Type	Total Fair Value	Maturity: Less than 1 year	Maturity: 1-5 years	Maturity: 6-10 years	Maturity: More than 10 years	Effective Duration *
Mortgage and Other Asset Backed Securities	$ 1,301,204,761	$ 2,598,591	$ 1,160,207,721	$ 138,398,449	$ -	3.3
Corporate Bonds	12,528,856,542	1,092,363,657	5,371,113,262	4,500,510,739	1,564,868,884	5.8
U.S. Government and Agency Securities	6,857,550,199	998,301,954	2,116,366,214	2,005,768,750	1,737,113,281	8.2
Foreign Government and Agency Securities	1,992,129,286	38,924,443	1,280,371,410	525,155,726	147,677,707	4.7
Totally Internally Managed Fixed Income	22,679,740,788	2,132,188,645	9,928,058,607	7,169,833,664	3,449,659,872	6.3
Mortgage Backed TBA Forwards	173,930,441	173,930,441	-	-	-	0.0
Total Retirement Funds Investment Categorized	22,853,671,229	$ 2,306,119,086	$ 9,928,058,607	$ 7,169,833,664	$ 3,449,659,872	6.2

Investments Not Required to be Categorized	
Cash and Cash Equivalents	1,815,245,374
Equity Securities	34,878,225,156
Alternative Investments	50,293,228,986
Total Investments Not Categorized	86,986,699,516
Total Investments	$ 109,840,370,745

* 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	$ 9,045,443,576	$ 1,474,627,865	$ 599,332,091	$ 6,857,550,199	$ 113,933,421
Aa1	366,918,832	-	101,384,310	-	265,534,522
Aa2	377,794,971	-	257,131,771	-	120,663,200
Aa3	961,030,141	-	844,269,786	-	116,760,355
A1	1,284,727,158	-	884,292,230	-	400,434,928
A2	1,598,657,609	-	1,598,657,609	-	-
A3	1,292,841,054	-	1,275,049,610	-	17,791,444
Baa1	1,856,409,255	-	1,805,361,755	-	51,047,500
Baa2	2,027,479,045	507,337	1,632,693,954	-	394,277,754
Baa3	2,018,906,738	-	2,018,906,738	-	-
Ba1 or Lower	2,023,462,850	-	1,511,776,688	-	511,686,162
Total	$ 22,853,671,229	$ 1,475,135,202	$ 12,528,856,542	$ 6,857,550,199	$ 1,992,129,286

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	$ 7,720,498	$ 131,910,290	$ 558,602,367	$ 123,092,835	$ 125,949	$ 821,451,939	0.7%
BRAZILIAN REAL	442,635	124,511,855	185,270,928	-	(913,071)	309,312,347	0.3%
CANADIAN DOLLAR	10,953,759	-	605,555,454	-	1,823,850	618,333,063	0.6%
SWISS FRANC	228,102	-	969,539,663	-	(1,909,407)	967,858,358	0.9%
CHILEAN PESO	1,077,383	61,607,755	13,232,678	-	(323,852)	75,593,964	0.1%
YUAN RENMINBI	1,860,628	27,799,454	197,709,490	-	219,223	227,588,795	0.2%
COLOMBIAN PESO	26,343	74,714,165	5,737,506	-	8,333	80,486,347	0.1%
DANISH KRONE	32,463	-	228,190,226	-	(119,520)	228,103,169	0.2%
EURO CURRENCY	22,693,476	-	3,505,909,136	3,244,829,932	(2,666,766)	6,770,765,778	6.1%
POUND STERLING	7,437,854	-	1,950,982,896	-	(3,625,788)	1,954,794,962	1.7%
HONG KONG DOLLAR	5,246,757	-	845,940,267	-	235,093	851,422,117	0.8%
INDONESIAN RUPIAH	154,642	26,296,093	51,593,713	-	(570,867)	77,473,581	0.1%
INDIAN RUPEE	1,442,179	62,742,204	160,633,064	-	364,328	225,181,775	0.2%
JAPANESE YEN	10,857,240	-	2,153,495,814	-	(62,700)	2,164,290,354	1.9%
SOUTH KOREAN WON	5,443,725	-	378,129,674	-	(1,922,018)	381,651,381	0.3%
MEXICAN PESO (NEW)	254,133	36,867,994	81,881,603	-	1,262,825	120,266,555	0.1%
NORWEGIAN KRONE	519,459	-	56,105,342	-	680,996	57,305,797	0.1%
SWEDISH KRONA	1,582,502	-	312,420,302	-	(653,711)	313,349,093	0.3%
SINGAPORE DOLLAR	2,094,906	-	171,503,043	-	46,063	173,644,012	0.2%
THAILAND BAHT	2,093,281	-	50,941,420	-	236,185	53,270,886	0.0%
NEW TAIWAN DOLLAR	2,780,453	-	192,878,147	-	(621,729)	195,036,871	0.2%
MISCELLANEOUS	6,366,666	55,704,648	227,766,566	-	3,578,288	293,416,168	0.3%
Total Foreign Currency Exposure	$ 91,309,084	$ 602,154,458	$ 12,904,019,299	$ 3,367,922,767	$ (4,808,296)	$ 16,960,597,312	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 Retirement Funds as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Retirement Funds' financial statements, and have issued our report thereon dated September 25, 2019.

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 25, 2019

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LABOR AND INDUSTRIES’ 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 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, 2019, 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.

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, 2019, 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 25, 2019 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 25, 2019

Management Discussion and Analysis

Management's Discussion and Analysis for the Labor and Industries' (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, 2019. 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, 2019. The following table compares the net investment position of each major investment classification at June 30, 2019 with those at June 30, 2018. In addition, the table summarizes the changes in each major investment classification for the fiscal year, and it compares 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 L&I Funds financial statements.

As shown in the following table, the net investment position of the L&I Funds increased by $1,533.0 million during the fiscal year ended June 30, 2019. Net contributions from the L&I Funds during the year increased net investment position by $87.0 million and were initially invested in the fixed income portfolio. Net investment income increased net investment position by $1,446.1 million and was reinvested in the various asset classes of the L&I Funds.

Net investment income increased by $1,196.7 million during the current fiscal year as compared to the prior year, mainly due to a large increase in net realized and unrealized gains and losses in the debt security portfolio. The current fiscal year return for the L&I Funds was 8.4 percent compared to the prior fiscal year return of 1.5 percent. The increase in returns resulted in the increase in realized and unrealized gains and losses from the prior fiscal year of $1,171.2 million.

Net contributions from the L&I Funds decreased by $169.4 million. The decrease in net contributions is mainly due to insurance premium rate reductions and higher refunds to retrospective rating participants. The Accident Account premium rates decreased 4.5 percent on January 1, 2018 and 7.5 percent on January 1, 2019. The Medical Aid Account premium rates decreased 3.5 percent on January 1, 2018 and 7.5 percent on January 1, 2019. Retrospective rating participants injury experience improved over the prior year resulting in higher refunds.

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, 2019			Fiscal Year End June 30, 2018			Year Over Year Change	
	Debt Securities (*)	Equity Securities	Total	Debt Securities (*)	Equity Securities	Total	Increase (Decrease)	Percent Change
Beginning 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%
Investment Income:								
Interest, Dividends, and Other Investment Income	505,619,904	596,176	506,216,080	478,003,618	1,108,728	479,112,346	27,103,734	5.7%
Realized and Unrealized Gains (Losses)	827,142,448	120,288,673	947,431,121	(465,005,322)	241,242,694	(223,762,628)	1,171,193,749	523.4%
Less: Investment Expenses	(6,881,269)	(690,374)	(7,571,643)	(5,069,825)	(866,263)	(5,936,088)	1,635,555	27.6%
Net Investment Income	1,325,881,083	120,194,475	1,446,075,558	7,928,471	241,485,159	249,413,630	1,196,661,928	479.8%
Net Contributions	86,504,464	466,550	86,971,014	255,937,528	416,997	256,354,525	(169,383,511)	-66.1%
Transfers to Other Asset Classes	(380,016,863)	380,016,863	-	39,768,548	(39,768,548)	-	-	NA
Ending Net Investment Position (**)	**$ 15,753,540,245**	**$ 2,808,941,574**	**$ 18,562,481,819**	**$ 14,721,171,561**	**$ 2,308,263,686**	**$ 17,029,435,247**	**$ 1,533,046,572**	**9.0%**

	Debt Securities (*)	Equity Securities	Total
Increase in Net Investment Position	**$ 1,032,368,684**	**$ 500,677,888**	**$ 1,533,046,572**
Percent Change in Net Investment Position	**7.0%**	**21.7%**	**9.0%**
One Year Time Weighted Return - June 30, 2019	**9.0%**	**5.1%**	**8.4%**
One Year Time Weighted Return - June 30, 2018	**0.1%**	**11.4%**	**1.5%**

(*) 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 $1,032.4 million. Interest income net of expenses of $498.7 million was reinvested in debt securities during the current fiscal year. Net realized and unrealized gains increased balances in this asset class by $827.1 million. The WSIB rebalanced the investments to policy target allocations in April 2019 and $470 million of fixed income securities were sold and the proceeds reinvested in equity securities in both the Accident Fund and Medical Aid Fund. The Pension Reserve Fund was overweight in the equity portfolio and $90 million of equity sale proceeds was reinvested in fixed income securities. These net rebalancing transactions of $380 million are included in the transfers in the preceding table. The net investment position and performance of debt securities includes $201.4 million of cash balances used for trading purposes.

  Despite the declining interest rate environment, interest income on fixed income securities increased by $27.6 million from the previous fiscal year. The average coupon rate at June 30, 2019 ranged from 3.1 to 3.7 percent for the Accident Fund, Medical Aid Fund, and Pension Reserve Fund. This was an increase from the prior year average coupon rates, which ranged from 3.0 to 3.6 percent. Average coupon rate increases, coupled with increases in fixed income invested balances, contributed to the increase in interest income.

  Performance for the L&I fixed income portfolios for the fiscal year ended June 30, 2019 was 9.0 percent, which outperformed their Comparable Market Indices. The longer maturity profile during the second half of the fiscal year contributed to the positive returns. The main factor driving increased returns was a declining interest rate environment, which drove up the prices for both U.S. Treasuries and credit bonds this year. The large increase in returns in the debt portfolio over the previous year increased realized and unrealized gains by $1,292.1 million year over year.

The Federal Reserve raised the target interest rate in September in an effort to avoid falling behind on potential inflationary pressure. With no sign of rate increases coming to an end, sharp slowdown in eurozone business confidence, weaker Chinese growth, and rising geopolitical risks, including Brexit and trade tension between the U.S. and China, global market volatility increased significantly in December 2018. Following the May 2019 announcement that the U.S. would move forward with tariff increases on U.S. imports from China, equity markets took a large hit causing massive sell-offs in global equity. Confronted by weaker economic data, trade tensions and inflation at bay, both the Federal Reserve and the European Central Bank (ECB) indicated that they were ready to ease monetary policy and further help stimulate the economy. Easy monetary policy, weak growth, and trade concerns pushed developed market bond yields to historic lows, and in the U.S. led to yield curve inversion. This supported strong price-driven returns from fixed income during the current fiscal year.

Overall, fixed income indexes had a great year, with U.S. interest rates down across the curve. The broad Bloomberg/Barclays Universal Index returned 8.1 percent for the one-year period. Credit spreads widened slightly during the fiscal year, with the high-yield spread ending the year at 377 basis points, up 14 basis points from previous fiscal year-end. Investment grade credits did marginally better than their high yield counterparts, with the spread narrowing 8 basis points for the one-year period, leading the corporate credit index to a robust 10.3 percent annual return.

- ***Equity securities*** net investment position increased by $500.7 million from the prior fiscal year. Net realized and unrealized gains increased the net investment position of equity securities by $120.3 million. Debt securities were sold and the proceeds of $380.0 million were reinvested in the equity portfolio to maintain approved asset allocation targets. During Fiscal Year 2019, the equity portfolio returned 5.1 percent, compared to the prior fiscal year return of 11.4 percent. This substantial decrease in returns resulted in a decrease of net realized and unrealized gains from the previous fiscal year of $121.0 million.

  The L&I global equity portfolio is passively managed and is structured to closely track the performance of its global benchmark. During the 2019 fiscal year, the L&I portfolio returned 5.1 percent, while the global equity market returned 4.9 percent as measured by Morgan Stanley Capital International (MSCI) indexes, which function as a broad barometer of overall market returns. Investors continued to find global equities an attractive investment in a low interest rate environment, though heightened geopolitical tensions, trade conflicts, and a shaky macroeconomic backdrop had noticeably increased market volatility. Dovish central bank activity around the globe managed to support equity markets in the first six months of calendar year 2019. Most regions traded higher, but, as with Fiscal Year 2018, the U.S. equity market posted better performance relative to non-U.S. developed and emerging market equities. In the U.S., smaller cap stocks generally underperformed their larger cap peers, but performed in line with the broader market.

As shown in the following table, securities on loan decreased by $29.2 million and collateral held under securities lending agreements decreased accordingly. The Federal Reserve Bank continued its large debt issuance in U.S. Government Bonds which lead to an oversupply in the market. This resulted in less demand to borrow U.S. Treasury Bills and Bonds. This led to a decrease in loan balances for L&I and trades executed were also at lower spreads on average for most of the year.

	June 30, 2019	June 30, 2018	Increase (Decrease)	Percent Change
Securities on Loan Fiscal Year End	$ 318,754,320	$ 348,001,238	$ (29,246,918)	-8.4%
Cash Collateral Held Under Securities Lending Agreements	58,468,568	99,809,837	(41,341,269)	
Non-Cash Collateral Held Under Securities Lending Agreements	267,458,057	254,212,119	13,245,938	
Total Collateral Held	**$ 325,926,625**	**$ 354,021,956**	**$ (28,095,331)**	**-7.9%**

The returns of the various capital markets, within which the WSIB invests, directly impacted the fair value of the L&I Funds net investment position. These 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.

Labor and Industries' Funds Statement of Net Investment Position - June 30, 2019

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	$ 68,791,043	$ 21,885,421	$ 65,354,381	$ 45,340,428	$ 201,371,273	1.1%
DEBT SECURITIES						
Mortgage and Other Asset Backed Securities	462,145,572	371,051,956	332,350,703	-	1,165,548,231	
Corporate Bonds	3,814,300,039	3,237,858,420	3,010,918,989	19,036,630	10,082,114,078	
U.S. Government and Agency Securities	1,214,558,204	1,062,059,961	783,106,055	60,597,656	3,120,321,876	
Foreign Government and Agency Securities	465,635,070	427,212,840	239,331,352	4,128,350	1,136,307,612	
Total Debt Securities	5,956,638,885	5,098,183,177	4,365,707,099	83,762,636	15,504,291,797	83.7%
EQUITY SECURITIES						
Commingled Investment Trusts	1,059,330,358	1,266,855,596	482,892,994	-	2,809,078,948	
Total Equity Securities	1,059,330,358	1,266,855,596	482,892,994	-	2,809,078,948	15.2%
Total Investments	7,084,760,286	6,386,924,194	4,913,954,474	129,103,064	18,514,742,018	100.0%
Collateral Held Under Securities Lending Agreements	-	42,522,595	15,945,973	-	58,468,568	
Investment Earnings Receivable	46,652,048	35,763,655	35,834,861	535,180	118,785,744	
Total Assets	7,131,412,334	6,465,210,444	4,965,735,308	129,638,244	18,691,996,330	
LIABILITIES						
Obligations Under Securities Lending Agreements	-	42,522,595	15,945,973	-	58,468,568	
Accounts Payable	53,816,900	66,173	16,152,122	1,010,748	71,045,943	
Total Liabilities	53,816,900	42,588,768	32,098,095	1,010,748	129,514,511	
NET INVESTMENT POSITION	$ 7,077,595,434	$ 6,422,621,676	$ 4,933,637,213	$ 128,627,496	$ 18,562,481,819	

Labor and Industries' Funds Statement of Changes in Net Investment Position - Year Ended June 30, 2019

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	$ 196,729,326	$ 155,270,937	$ 151,155,915	$ 3,059,902	$ 506,216,080
Net Realized Capital Gains (Losses)	(23,289,323)	(2,159,144)	5,394,358	(111,316)	(20,165,425)
Unrealized Gains	373,000,389	301,665,115	291,482,505	1,448,537	967,596,546
Less:					
Investment Expenses	(1,363,510)	(1,842,735)	(980,414)	(139,970)	(4,326,629)
WSIB Operating Expenses	(1,236,339)	(1,121,481)	(861,254)	(25,940)	(3,245,014)
Net Investment Income	543,840,543	451,812,692	446,191,110	4,231,213	1,446,075,558
Net Amount Contributed (Withdrawn)	114,336,339	74,538,481	(109,533,746)	7,629,940	86,971,014
Increase in Net Investment Position	658,176,882	526,351,173	336,657,364	11,861,153	1,533,046,572
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
Net Investment Position - June 30, 2019	$ 7,077,595,434	$ 6,422,621,676	$ 4,933,637,213	$ 128,627,496	$ 18,562,481,819

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 to the basic financial statements found in Note 6.

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 on a monthly basis. 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 2019 was $2.7 million. Securities lending expenses during the fiscal year totaled $(2.1) 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's operating expenses are charged to the funds based upon actual costs incurred to manage the investments. The WSIB's 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, 2019, 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. This 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, 2019, 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, 2019. 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, 2019, 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, 2019.

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, 2019 consist of $1.2 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, 2019, was approximately $318.8 million. The securities on loan remain in the Statement of Net Investment Position in their respective categories. At June 30, 2019, cash collateral received, totaling $58.4 million, is reported as a securities lending obligation. The fair value of the reinvested cash collateral, totaling $58.4 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, 2019 was $267.5 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, 2019.

In Millions:	Cash Collateral	Non-Cash Collateral	Total
Mortgage Backed Securities	$ -	$ 99.5	$ 99.5
Repurchase Agreements	19.5	-	19.5
Yankee CD	13.6	-	13.6
Commercial Paper	14.9	-	14.9
Cash Equivalents and Other	10.4	-	10.4
U.S. Treasuries and Agencies	-	168.0	168.0
Total Collateral Held	**$ 58.4**	**$ 267.5**	**$ 325.9**

During Fiscal Year 2019, securities lending transactions could be terminated on demand by either the L&I Funds or the borrower. As of June 30, 2019, the cash collateral held had an average duration of 17.8 days and an average weighted final maturity of 98.3 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 2019, 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 2019, 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 their 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, 2019, the only derivative securities held directly by the L&I Funds were collateralized mortgage obligations of $560.4 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. 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, 2019:

		Fair Value Measurements Using:		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
INVESTMENTS				
DEBT SECURITIES				
Mortgage and Other Asset Backed Securities	$ 1,165,548,231	$ -	$ 1,165,548,231	$ -
Corporate Bonds	10,082,114,078	-	10,082,114,078	-
U.S. and Foreign Government and Agency Securities	4,256,629,488	-	4,256,629,488	-
Total Debt Securities	15,504,291,797	-	15,504,291,797	-
Total Investments By Fair Value Level	15,504,291,797	-	15,504,291,797	-
INVESTMENTS MEASURED AT NET ASSET VALUE				
Commingled Equity Investment Trusts	2,809,078,948			
Total Investments Measured at Fair Value	$ 18,313,370,745			
OTHER ASSETS (LIABILITIES) AT FAIR VALUE				
Collateral Held Under Securities Lending Agreements	$ -	$ -	$ 58,468,568	$ -
Obligations Under Securities Lending Agreements	-	-	(58,468,568)	-
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 U.S. gross (MSCI ACWI IMI net with U.S. 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 underlying 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 of the L&I Funds.

Market conditions, funding status, and liability assumptions are dynamic. Therefore, WSIB staff meet 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, rebalancing transactions 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 the 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 U.S. gross (MSCI ACWI IMI net with U.S. 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.

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, those differences should not be material over any extended period of time.

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.

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.

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 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.

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%

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

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	$ 1,165,548,231	$ 39,914,790	$ 816,192,341	$ 309,441,100	$ -	4.1	Schedule 2
Corporate Bonds	10,082,114,078	1,398,332,325	4,108,920,124	1,944,077,499	2,630,784,130	6.4	Schedule 2
U.S. Government and Agency Securities	3,120,321,876	164,925,782	502,790,625	1,272,810,938	1,179,794,531	11.1	Aaa
Foreign Government and Agencies	1,136,307,612	213,649,950	678,055,662	210,860,950	33,741,050	3.4	Schedule 2
	15,504,291,797	$ 1,816,822,847	$ 6,105,958,752	$ 3,737,190,487	$ 3,844,319,711	6.9	
Investments Not Required to be Categorized							
Commingled Investment Trusts	2,809,078,948						
Cash and Cash Equivalents	201,371,273						
Total Investments Not Categorized	3,010,450,221						
Total L&I Funds Investments	$ 18,514,742,018						

* 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	$ 1,165,548,231	$ 600,828,040	$ 272,759,620
Aa1	-	167,702,540	137,800,050
Aa2	-	238,592,550	245,966,050
Aa3	-	1,038,811,566	229,766,990
A1	-	1,491,083,900	186,781,500
A2	-	1,943,259,339	-
A3	-	1,530,048,212	-
Baa1	-	1,447,911,123	24,233,902
Baa2	-	1,132,057,572	38,999,500
Baa3	-	330,807,847	-
Ba1 or Lower	-	161,011,389	-
Total	$ 1,165,548,231	$ 10,082,114,078	$ 1,136,307,612

Schedule 3: Foreign Currency Exposure

Foreign Currency Denomination	Equity Securities	Percent of Total Investments
AUSTRALIAN DOLLAR	$ 61,146,881	0.3%
BRAZILIAN REAL	24,692,107	0.1%
CANADIAN DOLLAR	86,126,190	0.5%
SWISS FRANC	73,301,222	0.4%
DANISH KRONE	15,197,534	0.1%
EURO CURRENCY	260,294,048	1.4%
POUND STERLING	144,280,792	0.8%
HONG KONG DOLLAR	96,877,455	0.5%
JAPANESE YEN	208,942,175	1.1%
SOUTH KOREAN WON	41,027,776	0.2%
SWEDISH KRONA	25,980,588	0.1%
SINGAPORE DOLLAR	12,247,888	0.1%
NEW TAIWAN DOLLAR	38,348,849	0.2%
SOUTH AFRICAN RAND	19,102,154	0.1%
OTHER (MISC)	89,245,699	0.6%
Total Foreign Currency Exposure	$ 1,196,811,358	6.5%

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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 Labor and Industries' Funds as of and for the year ended June 30, 2019, 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 25, 2019.

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.

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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 25, 2019

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, 2019, 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, 2019, 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 25, 2019 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 25, 2019

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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, 2019. 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, 2019. The following table compares the net investment position of each major investment classification at June 30, 2019 with those at June 30, 2018. In addition, the table summarizes the changes in each major investment classification for the fiscal year and compares 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 Permanent Funds financial statements.

As shown in the following table, the net investment position of the Permanent Funds increased by $61.9 million during the fiscal year ended June 30, 2019. Net contributions from the Department of Natural Resources (DNR) on behalf of the Permanent Funds during the year increased net investment position by $15.5 million and were mainly invested in fixed income securities. Net investment income increased net investment position by $79.9 million. Distributable investment income (interest, dividends, and other investment income net of investment expenses) of $33.4 million was distributed to the state colleges and universities pursuant to state laws, which decreased net investment position. 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 increased by $34.0 million during the current fiscal year as compared to the prior year for the following reasons:

- Interest, dividends, and other investment income decreased by $10.9 million over the prior fiscal year and is derived from the distributable investment income within each commingled investment fund. Distributable investment income of the underlying holdings includes interest, dividends, and realized gains and losses. During the previous fiscal year, a new asset allocation policy was adopted with the ultimate goal of moving the equity portfolio from a U.S. only mandate to a global equity mandate. As part of the transition to international markets, U.S. equity securities were sold to rebalance the portfolio, which realized significant capital gains within the equity portfolio. These gains were distributed from the Commingled Monthly Equity Fund (CMEF) in the prior year, which decreased the income distributions in the current year.

  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 Comingled Monthly Bond Fund (CMBF) average coupon rates increased slightly this fiscal year from 2.9 to 3.1 percent. Dividend yield of the CMEF also increased slightly from 3.1 to 3.2 percent.

PERMANENT FUNDS

- The realized and unrealized gains increased by $44.9 million as a result of increased investment returns of the entire portfolio. The overall return of the total portfolio of 7.6 percent was a substantial increase of the prior year return of 4.4 percent. The fixed income portfolio, which represents 70 percent of invested balances at year end, returned 7.8 percent in the current year, as compared to the prior year return of 0.0 percent. The total return of the CMBF portfolio is the driver of the overall increase in returns, as it increased significantly from 0.0 percent in the previous fiscal year to 7.8 percent this fiscal year. The CMEF portfolio returned 7.0 percent in the current fiscal year, compared to 14.1 in the previous fiscal year, which offset some of the large increases in gains from the fixed income portfolio.

Net contributions from DNR decreased by $0.9 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 for the WSIB to invest in securities.

Distributions to the beneficiary funds decreased by $9.1 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 decrease in distributions from the prior year was mainly the result of reduced capital gains realized in the CMEF portfolio. As discussed previously, large gains were realized in the equity portfolio as it sold securities to transition from a U.S. only mandate to a global mandate in the previous year.

Summarized Change in Net Investment Position and Returns by Asset Class

	Fiscal Year End June 30, 2019				Fiscal Year End June 30, 2018				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 (*)	$ 1,961,479	$ 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%
Investment Income:										
Interest, Dividends, and Other Investment Income	16,073	21,841,386	11,763,549	33,621,008	11,940	23,333,973	21,190,803	44,536,716	(10,915,708)	-24.5%
Realized and Unrealized Gains (Losses)	-	35,235,314	11,196,593	46,431,907	-	(23,747,329)	25,241,480	1,494,151	44,937,756	3007.6%
Less: Investment Expenses	(1,496)	(138,036)	(61,050)	(200,582)	(1,957)	(133,725)	(62,937)	(198,619)	1,963	1.0%
Net Investment Income	14,577	56,938,664	22,899,092	79,852,333	9,983	(547,081)	46,369,346	45,832,248	34,020,085	74.2%
Net Amount Contributed	15,500,000	-	-	15,500,000	16,357,000	-	-	16,357,000	(857,000)	-5.2%
Withdrawals and Distributions	(21,842)	(21,697,935)	(11,702,499)	(33,422,276)	(23,780)	(23,189,559)	(19,281,538)	(42,494,877)	(9,072,601)	-21.3%
Transfers Between Asset Classes	(16,632,833)	13,856,153	2,776,680	-	(15,814,764)	59,801,092	(43,986,328)	-	-	NA
Ending Net Investment Position (*)	**$ 821,381**	**$ 782,435,339**	**$ 342,177,496**	**$ 1,125,434,216**	**$ 1,961,479**	**$ 733,338,457**	**$ 328,204,223**	**$ 1,063,504,159**	**$ 61,930,057**	**5.8%**

	Cash and Cash Equivalents	Debt Securities	Equity Securities	Total
Increase (Decrease) in Net Investment Position	**$ (1,140,098)**	**$ 49,096,882**	**$ 13,973,273**	**$ 61,930,057**
Percent Change in Net Investment Position	**-58.1%**	**6.7%**	**4.3%**	**5.8%**
One Year Time Weighted Return - June 30, 2019	**2.1%**	**7.8%**	**7.0%**	**7.6%**
One Year Time Weighted Return - June 30, 2018	**1.2%**	**0.0%**	**14.1%**	**4.4%**

(*) 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 decreased by $1.1 million. This cash balance represents less than 1.0 percent of total invested balances and is within policy ranges set by the WSIB. 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, 2019 increased over the prior fiscal year from 1.2 to 2.1 percent. Short-term rates moved considerably higher over the last year as a result of Federal Reserve actions. The Federal Reserve increased the target range for the federal funds rate two times during this fiscal year, for a total of 50 basis points. The Net Investment Position of Cash and Cash Equivalents include accrued income and accrued expenses.

- ***Debt securities*** net investment position increased by $49.1 million. Net realized and unrealized gains for the fiscal year were $35.2 million, which increased fixed income invested balances. Contributions received were initially invested in cash and subsequently transferred and reinvested in debt securities which increased the net investment position. In the current fiscal year, $13.9 million of contributions were invested in fixed income securities. Interest, dividends, and other investment income net of investment expenses of $21.7 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 7.8 percent in the current year, which is significantly higher than the previous year of 0.0 percent. The performance of the portfolio was slightly lower than the return of the benchmark at 7.9 percent. The lower return was a function of security selection, allocation to cash for liquidity purposes, and the maturity profile of the portfolio.

  The Federal Reserve raised the target interest rate in September in an effort to avoid falling behind on potential inflationary pressure. With no sign of rate increases coming to an end, sharp slowdown in eurozone business confidence, weaker Chinese growth, and rising geopolitical risks, including Brexit and trade tension between the U.S. and China, global market volatility increased significantly in December 2018. Following the May 2019 announcement that the U.S. would move forward with tariff increases on U.S. imports from China, equity markets took a large hit causing massive sell-offs in global equity. Confronted by weaker economic data, trade tensions and inflation at bay, both the Federal Reserve and the European Central Bank (ECB) indicated that they were ready to ease monetary policy and further help stimulate the economy. Easy monetary policy, weak growth, and trade concerns pushed developed market bond yields to historic lows, which led to yield curve inversion in the U.S. This supported strong price-driven returns from fixed income during the current fiscal year.

  Overall fixed income indexes had a great year, with U.S. interest rates down across the curve. The broad Bloomberg/Barclays Universal index returned 8.1 percent for the one-year period. Credit spreads widened slightly during the fiscal year, with the high yield spread ending the year at 377 basis points, up 14 basis points from previous fiscal year-end. Investment grade credits did marginally better than their high yield counterparts with the spread narrowing 8 basis points for the one-year period, leading the corporate credit index to a robust 10.3 percent annual return.

Equity securities net investment position increased by $14.0 million. Net realized and unrealized gains increased equity securities net investment position by $11.2 million. Interest, dividends, and other investment income net of investment expenses of $11.7 million was reinvested in equity securities and subsequently distributed to the beneficiary funds. Contributions received were initially invested in cash and subsequently transferred and reinvested in equity securities, which also increased the net investment position. In the current fiscal year, $2.8 million of the contributions were invested in the CMEF.

The Commingled Monthly Equity Fund (CMEF) is invested in a combination of U.S. equity and non-U.S. securities, which, over the long term, have provided protection against inflation. The strategy aims to earn an above-average dividend yield to support distributions to the beneficiary funds, as seen by the portfolio's trailing 12-month dividend yield of 3.2 percent. The total portfolio returned 7.0 percent during the current fiscal year, which outperformed the global benchmark return of 4.9 percent. The overweight to technology stocks and to the U.S. drove most of the outperformance. Investors continued to find global equities an attractive investment in a low interest rate environment, though heightened geopolitical tensions, trade conflicts, and a shaky macroeconomic backdrop had noticeably increased market volatility. Dovish central bank activity around the globe managed to support equity markets in the first six months of 2019. Most regions traded higher, but, as with Fiscal Year 2018, the U.S. equity market posted better performance relative to non-U.S. developed and emerging market equities. In the U.S., smaller cap stocks generally underperformed their larger cap peers, but performed in line with the broader market.

The returns of the various capital markets, within which the WSIB invests, directly impacted the fair value of the Permanent Funds net investment position. These 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, 2019

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	$ 21,995	$ 336,144	$ 201,123	$ 6,943	$ 244,729	$ 12,913	$ 823,847	0.1%
Commingled Monthly Bond Fund	335,486	178,747,748	209,118,309	161,994,135	204,386,924	27,852,738	782,435,340	69.5%
Commingled Monthly Equity Fund	-	78,218,573	91,965,228	71,664,117	88,156,472	12,173,105	342,177,495	30.4%
Total Investments	357,481	257,302,465	301,284,660	233,665,195	292,788,125	40,038,756	1,125,436,682	100.0%
Investment Earnings Receivable	669	665,468	780,290	606,105	755,321	103,628	2,911,481	
Total Assets	358,150	257,967,933	302,064,950	234,271,300	293,543,446	40,142,384	1,128,348,163	
LIABILITIES								
Distributions and Other Payables	669	665,613	780,461	608,114	755,265	103,825	2,913,947	
NET INVESTMENT POSITION	$ 357,481	$ 257,302,320	$ 301,284,489	$ 233,663,186	$ 292,788,181	$ 40,038,559	$ 1,125,434,216	

Permanent Funds Statement of Changes in Net Investment Position - Year Ended June 30, 2019

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	$ 9,898	$ 7,675,550	$ 9,012,287	$ 7,010,139	$ 8,722,230	$ 1,190,904	$ 33,621,008
Net Realized and Unrealized Capital Gains	15,138	10,617,967	12,421,227	9,627,347	12,114,628	1,635,600	46,431,907
Less:							
Investment Expenses	(35)	(330)	(240)	(150)	(421)	(66)	(1,242)
WSIB Operating Expenses	(64)	(45,486)	(53,460)	(41,577)	(51,700)	(7,053)	(199,340)
Net Investment Income	24,937	18,247,701	21,379,814	16,595,759	20,784,737	2,819,385	79,852,333
Other Changes in Net Investment Position							
Contributions	-	4,278,000	2,968,000	1,804,000	5,779,000	671,000	15,500,000
Withdrawals and Distributions	(10,928)	(7,630,037)	(8,958,913)	(6,968,397)	(8,670,257)	(1,183,744)	(33,422,276)
Increase in Net Investment Position	14,009	14,895,664	15,388,901	11,431,362	17,893,480	2,306,641	61,930,057
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
Net Investment Position - June 30, 2019	$ 357,481	$ 257,302,320	$ 301,284,489	$ 233,663,186	$ 292,788,181	$ 40,038,559	$ 1,125,434,216

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. The AIS Endowment Fund 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 to the basic financial statements found in Note 6.

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 2019 was $802,165. Securities lending expenses during the fiscal year totaled $592,061.

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's operating expenses are charged to the funds based upon actual costs incurred to manage the investments. The WSIB's 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, 2019, 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. This 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 of securities held 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, 2019. 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, 2019.

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, 2019 consisted of $99.7 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, 2019, the fair value of the securities on loan in the CMEF and CMBF was approximately $81.3 million. The securities on loan are reported in Schedules 1 and 3 in their respective categories. At June 30, 2019, cash collateral received totaling $18.0 million was reported as a securities lending obligation, and the fair value of the reinvested cash collateral totaling $18.0 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, were 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, 2019.

In Millions:	Cash Collateral	Non-Cash Collateral	Total
Mortgage Backed Securities	$ -	$ 62.0	$ 62.0
Repurchase Agreements	6.0	-	6.0
Yankee CD	4.2	-	4.2
Commercial Paper	4.6	-	4.6
U.S. Treasuries	-	3.5	3.5
Cash Equivalents and other	3.2	-	3.2
Total Collateral Held	**$ 18.0**	**$ 65.5**	**$ 83.5**

During Fiscal Year 2019, securities lending transactions could be terminated on demand by either the Permanent Funds or the borrower. As of June 30, 2019, the collateral held had an average duration of 17.8 days and an average weighted final maturity of 98.3 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 2019, 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 2019, 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, 2019, the only derivative securities held directly by the Permanent Funds' CMBF were collateralized mortgage obligations of $35.8 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, 2019:

		Fair Value
INVESTMENTS - PERMANENT FUNDS		
INVESTMENTS MEASURED AT NET ASSET VALUE		
Commingled Monthly Bond Fund	$	782,435,340
Commingled Monthly Equity Fund		342,177,495
Total Investments at Net Asset Value		1,124,612,835
Total Investments Measured at Fair Value	$	1,124,612,835

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 states, 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 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.

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.

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%

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	$ 75,663,990	$ 9,978,282	$ 54,001,523	$ 11,684,185	$ -	3.5	AAA
Corporate Bonds	330,458,002	57,185,210	110,387,646	82,215,350	80,669,796	6.7	Schedule 2
U.S. Government and Agency Securities	314,068,790	25,068,555	178,085,547	31,930,469	78,984,219	7.4	AAA
Foreign Government and Agency Securities	55,851,200	4,991,600	35,614,350	15,245,250	-	3.4	Schedule 2
Total Debt Securities	776,041,982	$ 97,223,647	$ 378,089,066	$ 141,075,254	$ 159,654,015	6.41*	
Investments Not Required to be Categorized:							
Cash and Cash Equivalents	13,547,477						
Collateral Held Under Securities Lending Agreements	11,004,784						
Investment Earnings Receivable	4,684,007						
Total Commingled Bond Fund Assets	805,278,250						
Distributions and other payables	(11,838,126)						
Obligations Under Securities Lending Agreements	(11,004,784)						
CMBF Net Investment Position - June 30, 2019	$ 782,435,340						

* Duration excludes cash balances

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

Moody's Credit Rating	Corporate Bonds	Foreign Government and Agency Securities
Aaa	$ 17,028,510	$ 10,033,450
Aa1	-	4,992,150
Aa2	5,027,850	15,183,300
Aa3	53,433,300	5,077,250
A1	31,604,200	20,565,050
A2	77,421,360	-
A3	60,749,170	-
Baa1	49,926,812	-
Baa2	30,186,150	-
Baa3	5,080,650	-
Total	$ 330,458,002	$ 55,851,200

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

Classification		
Cash and Cash Equivalents	$	1,690,951
Common and Preferred Stock		325,228,886
Real Estate Investment Trusts		15,700,845
Total Investments		342,620,682
Depository Receipts and Other Miscellaneous		422,627
Income and Other Receivables		637,979
Collateral Held Under Securities Lending Agreements		7,025,412
Distributions and Other Payables		(1,503,793)
Obligations Under Securities Lending Agreements		(7,025,412)
CMEF Net Investment Position June 30, 2019	**$**	**342,177,495**

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

	Investment Type In U.S. Dollar Equivalent			
Foreign Currency Denomination	**Cash and Cash Equivalents**	**Equity Securities**	**Total**	**Percent of Total CMEF Funds Investments**
AUSTRALIAN DOLLAR	$ 2,127	$ 3,203,989	$ 3,206,116	0.9%
CANADIAN DOLLAR	29,857	4,097,518	4,127,375	1.2%
EURO CURRENCY	395,350	34,035,617	34,430,967	10.1%
POUND STERLING	65,322	23,130,661	23,195,983	6.9%
HONG KONG DOLLAR	17,284	947,226	964,510	0.3%
JAPANESE YEN	267,128	23,174,934	23,442,062	6.8%
NORWEGIAN KRONE	9,964	4,153,647	4,163,611	1.2%
NEW ZEALAND DOLLAR	7,771	2,199,392	2,207,163	0.6%
SWEDISH KRONA	2,563	1,391,455	1,394,018	0.4%
SINGAPORE DOLLAR	2,181	730,620	732,801	0.2%
OTHER (MISC)	5,414	1,792,889	1,798,303	0.5%
Total Foreign Currency Exposure	$ 804,961	$ 98,857,948	$ 99,662,909	29.1%

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 Permanent Funds as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Permanent Funds' financial statements, and have issued our report thereon dated September 25, 2019.

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 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 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 25, 2019

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, 2019, 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.

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

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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, 2019, 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 25, 2019 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 25, 2019

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, 2019. 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, 2019. The following table compares the net investment position of each major investment classification at June 30, 2019 with those at June 30, 2018. In addition, they summarize the changes in each major investment classification for the fiscal year ended June 30, 2019 and 2018, 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 $740.2 million during the fiscal year ended June 30, 2019. Net withdrawals by the GET Fund participants during the year decreased net investment position by $821.0 million. These withdrawals were offset by a net investment income of $80.8 million reinvested within the various asset classes.

Net investment income was $53.5 million lower than the previous fiscal year in large part from a decrease in realized and unrealized gains. The large decrease from the previous year in market related gains in the equity portfolio of $91.0 million was offset by an increase in market related gains of $46.0 million in the debt portfolio. The current fiscal year return for the GET Fund was 5.3 percent compared to the prior fiscal year return of 6.4 percent. The decrease in returns resulted in an overall decrease in realized and unrealized gains from the prior fiscal year of $45.1 million. In addition, interest, dividend, and other investment income decreased by $9.1 million from the previous fiscal year, which contributed to the overall decrease in net investment income.

Withdrawals from the GET Fund increased by $613.8 million from the prior year. Roll over requests to the newly created IRS Section 529 Qualified Tuition Plan required liquidation of GET Fund balances invested by the WSIB and commenced in the current fiscal year. Legislation enacted in 2018 allowed certain existing GET participants to roll their entire account balance into the new DreamAhead College Investment Plan. Due to the unpredictability of the potential withdrawals, the asset allocation policy was changed in the previous fiscal year to provide greater flexibility during this transition window, which increased the cash balances substantially in Fiscal Year 2018. The roll over window began on June 15, 2018 and closed on September 12, 2018, where the majority of the current year withdrawals occurred. Once the roll over window closed, the cash policy targets returned to normal.

GUARANTEED EDUCATION TUITION FUND

Summarized Change in Net Investment Position and Returns by Asset Class	Fiscal Year End June 30, 2019				Fiscal Year End June 30, 2018				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 (**)	$ 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%
Investment Income:										
Interest, Dividends, and Other Investment Income	4,356,551	-	19,100,603	23,457,154	4,848,571	1,434,214	26,270,998	32,553,783	(9,096,629)	-27.9%
Realized and Unrealized Gains (Losses)	-	40,621,878	18,193,991	58,815,869	-	(5,355,300)	109,224,223	103,868,923	(45,053,054)	-43.4%
Less: Investment Expenses	(701,484)	-	(772,285)	(1,473,769)	(980,343)	(35,058)	(1,095,538)	(2,110,939)	(637,170)	-30.2%
Net Investment Income (Loss)	3,655,067	40,621,878	36,522,309	80,799,254	3,868,228	(3,956,144)	134,399,683	134,311,767	(53,512,513)	-39.8%
Net Withdrawals	(821,037,378)	-	-	(821,037,378)	(207,237,669)	-	-	(207,237,669)	613,799,709	296.2%
Transfers Between Asset Classes	(63,259,761)	20,000,000	43,259,761	-	1,020,608,849	(358,027,652)	(662,581,197)	-	-	NA
Ending Net Investment Position (**)	**$ 39,120,799**	**$ 532,988,214**	**$ 782,599,914**	**$ 1,354,708,927**	**$ 919,762,871**	**$ 472,366,336**	**$ 702,817,844**	**$ 2,094,947,051**	**$ (740,238,124)**	**-35.3%**

	Cash and Cash Equivalents	Debt Securities (*)	Equity Securities (*)	Total
Increase (Decrease) in Net Investment Position	**$ (880,642,072)**	**$ 60,621,878**	**$ 79,782,070**	**$ (740,238,124)**
Percent Change in Net Investment Position	**-95.7%**	**12.8%**	**11.4%**	**-35.3%**

	Cash and Cash Equivalents	Debt Securities (*)	Equity Securities (*)	Total
One Year Time Weighted Return - June 30, 2019	**2.3%**	**8.5%**	**4.9%**	**5.3%**
One Year Time Weighted Return - June 30, 2018	**1.2%**	**-0.5%**	**11.4%**	**6.4%**

(*) 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 decreased by $880.6 million, mainly from withdrawals to fund roll over requests to the new DreamAhead College Investment Program. Cash was raised in the previous fiscal year in excess of actual withdrawals to support the roll over requests in the current fiscal year. The total withdrawals from July to September 2018 was $897.0 million. During the current fiscal year, the GET program invested an additional $75.7 million in excess of their operating requirements in support of the existing GET program. In October 2018, $20.0 million of excess cash balances was reinvested in the debt portfolio as the roll over period ended. The transfers from cash to purchase equity securities of $43.3 million aligned invested balances with strategic target allocations according to investment policy and was funded from contributions received throughout the year.

  Cash returns of 2.3 percent were significantly higher than returns in the prior fiscal year. Short-term rates moved considerably higher over the last year as a result of Federal Reserve actions. The Federal Reserve increased the target range for the federal funds rate two times during this fiscal year, for a total of 50 basis points. Although the interest rate earned on cash increased over the previous year, interest income received and reinvested within this asset class decreased by $0.5 million over the prior year due to the significant decrease in invested cash balances. Cash held within the debt and equity security portfolios is excluded from this analysis and balance.

- ***Debt securities*** net investment position increased by $60.6 million. Following the completion of the roll over period discussed previously, excess cash held from the prior year and current year contributions of $20.0 million were transferred to the debt portfolio to align invested balances with the target asset allocation policies of the GET program. The remaining increase was the result of realized and unrealized gains in the fixed income portfolio.

GET invests in the Daily Valued Bond Fund, a commingled investment 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. The return of the portfolio for the current fiscal year end was 8.5 percent which is a substantial increase over the prior fiscal year end return of (0.5) percent. This resulted in an increase of net realized and unrealized gains and losses from the previous fiscal year of $46.0 million. Debt securities outperformed its benchmark, the Bloomberg Barclays U.S. Intermediate Credit Index, of 8.2 percent. Security selection, industry allocation within credit bonds, and the maturity profile of the fund compared to the benchmark are all contributing factors to the Daily Valued Bond Fund outperforming its benchmark. The decrease in interest rates drove up the prices for both U.S. Treasuries and credit bonds this year.

The Federal Reserve raised the target interest rate in September in an effort to avoid falling behind on potential inflationary pressure. With no sign of rate increases coming to an end, sharp slowdown in eurozone business confidence, weaker Chinese growth, and rising geopolitical risks, including Brexit and trade tension between the U.S. and China, global market volatility increased significantly in December 2018. Following the May 2019 announcement that the U.S. would move forward with tariff increases on U.S. imports from China, equity markets took a large hit causing massive sell-offs in global equity. Confronted by weaker economic data, trade tensions and inflation at bay, both the Federal Reserve and the European Central Bank (ECB) indicated that they were ready to ease monetary policy and further help stimulate the economy. Easy monetary policy, weak growth, and trade concerns pushed developed market bond yields to historic lows, and in the U.S. led to yield curve inversion. This supported strong price-driven returns from fixed income during the current fiscal year.

Overall fixed income indexes had a great year, with U.S. interest rates down across the curve. The broad Bloomberg/Barclays Universal index returned 8.1 percent for the one-year period. Credit spreads widened slightly during the fiscal year, with the high yield spread ending the year at 377 basis points, up 14 basis points from previous fiscal year-end. Investment grade credits did marginally better than their high yield counterparts with the spread narrowing 8 basis points for the one-year period, leading the corporate credit index to a robust 10.3 percent annual return.

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

- ***Equity securities*** net investment position increased by $79.8 million. Net investment income reinvested increased equity security balances by $36.5 million. Following the completion of the roll over period discussed previously, excess cash held from the prior year and current year contributions of $43.3 million were transferred to the equity portfolio to align invested balances with the asset allocation policies for the GET program.

  While dividend yields increased slightly during the current fiscal year, from 2.4 to 2.5 percent, dividend and other investment income in the equity portfolio decreased by $7.2 million. The average invested balances in the equity portfolio decreased by 23.2 percent from the previous fiscal year, which resulted in this decline in income. As discussed previously, cash was raised in the prior fiscal year in order to fund anticipated roll over requests and a large withdrawal of $662.6 million that was made from the equity portfolio. The funds raised were reinvested in cash in anticipation of withdrawal requests from GET participants. The equity portfolio returned 4.9 percent during the current fiscal year, compared to a prior year return of 11.4 percent. Accordingly, net realized and unrealized gains within the portfolio decreased $91.0 million due to a significant decrease in investment returns. The net investment position and performance of equity securities included $6.5 million of cash and cash equivalents used for trading purposes.

During the 2019 fiscal year, the GET equity portfolio returned 4.9 percent, matching the global equity market benchmark measured by Morgan Stanley Capital International (MSCI) indexes, which are a broad barometer of overall market returns. Investors continued to find global equities an attractive investment in a low interest rate environment, though heightened geopolitical tensions, trade conflicts, and a shaky macroeconomic backdrop had noticeably increased market volatility. Dovish central bank activity around the globe managed to support equity markets in the first six months of calendar year 2019. Most regions traded higher, but, as with Fiscal Year 2018, the U.S. equity market posted better performance relative to non-U.S. developed and emerging market equities. In the U.S., smaller cap stocks generally underperformed their larger cap peers, but performed in line with the broader market.

As shown in the following table, securities on loan decreased by $3.6 million and collateral held under securities lending agreements decreased accordingly. The GET lending balances fell slightly due to the strong demand to borrow U.S. equities which were offset by the lower demand to borrow non-U.S. equities. 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, 2019	June 30, 2018	Increase (Decrease)	Percent Change
Securities on Loan Fiscal Year End	$ 34,897,366	$ 38,526,115	$ (3,628,749)	-9.4%
Cash Collateral Held Under Securities Lending Agreements	22,205,390	22,426,594	(221,204)	
Non-Cash Collateral Held Under Securities Lending Agreements	13,866,163	16,840,741	(2,974,578)	
Total Collateral Held	**$ 36,071,553**	**$ 39,267,335**	**$ (3,195,782)**	**-8.1%**

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, 2019

See notes to financial statements

			Percent of Total
ASSETS			
Investments:			
CASH AND CASH EQUIVALENTS	$	45,589,742	3.4%
DEBT SECURITIES			
Commingled Intermediate Credit		532,988,212	
Total Debt Securities		532,988,212	39.4%
EQUITY SECURITIES			
Common and Preferred Stock		737,072,729	
Real Estate Investment Trusts		25,039,789	
Depository Receipts and Other		11,703,895	
Total Equity Securities		773,816,413	57.2%
Total Investments		1,352,394,367	100.0%
Collateral Held Under Securities Lending Agreements		22,205,390	
Pending Trades and Other Investment Receivables		2,548,814	
Total Assets		1,377,148,571	
LIABILITIES			
Pending Trades and Other Payables		234,254	
Obligations Under Securities Lending Agreements		22,205,390	
Total Liabilities		22,439,644	
NET INVESTMENT POSITION	$	1,354,708,927	

GET Fund Statement of Changes in Net Investment Position - Year Ended June 30, 2019

See notes to financial statements

Net Investment Income	
Investment Income	
Interest, Dividends and Other Investment Income	$ 22,774,622
Securities Lending Income	682,532
Net Realized Capital Gains	2,833,449
Unrealized Gains	55,982,420
Less:	
Securities Lending Rebates and Fees	(495,354)
Investment Expenses	(696,575)
WSIB Operating Expenses	(281,840)
Net Investment Income	80,799,254
Net Amount Withdrawn	(821,037,378)
Decrease in Net Investment Position	(740,238,124)
Net Investment Position - June 30, 2018	2,094,947,051
Net Investment Position - June 30, 2019	$ 1,354,708,927

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 to the basic financial statements found in Note 6.

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 2019 was $0.7 million. Securities lending expenses during the fiscal year totaled $(0.5) 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, 2019, 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. This 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, 2019. 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, 2019, 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, 2019.

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, 2019, was approximately $34.9 million. The securities on loan remain in the Statement of Net Investment Position in their respective categories. At June 30, 2019, cash collateral received totaling $22.2 million is reported as a securities lending obligation, and the fair value of the reinvested cash collateral totaling $22.2 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, 2019, was $36.1 million.

Debt and equity securities were loaned and collateralized by the GET Fund's agent, with cash and U.S. Government or U.S. Agency Securities including, U.S. Agency Mortgage Backed Securities (exclusive of letters of credit). When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest of the loaned securities. The following table summarizes the securities held from reinvestment of cash collateral and securities received as collateral at June 30, 2019.

In Millions:	Cash Collateral	Non-Cash Collateral	Total
Repurchase Agreements	$ 7.4	$ -	$ 7.4
Yankee CD	5.2	-	5.2
Commercial Paper	5.7	-	5.7
U.S. Treasuries	-	13.9	13.9
Cash Equivalents and Other	3.9	-	3.9
Total Collateral Held	**$ 22.2**	**$ 13.9**	**$ 36.1**

During Fiscal Year 2019, securities lending transactions could be terminated on demand by either the GET Fund or the borrower. As of June 30, 2019, the cash collateral held had an average duration of 17.8 days and an average weighted final maturity of 98.3 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 2019, 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 2019, 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, 2019, 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, 2019, 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, 2019, 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, 2019 - Investment Derivative	
	Classification	Amount	Amount	Notional
FUTURES CONTRACTS:				
Equity Index Futures	Investment	$ 557,845	$ 120,690	2,450

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. 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, 2019:

		Fair Value Measurements Using:		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
INVESTMENTS				
EQUITY SECURITIES	$ 773,816,413	$ 771,836,742	$ 1,545,620	$ 434,051
Total Investments By Fair Value Level	773,816,413	771,836,742	1,545,620	434,051
INVESTMENTS MEASURED AT NET ASSET VALUE				
Commingled Intermediate Credit	532,988,212			
Total Investments Measured at Fair Value	$ 1,306,804,625			
OTHER ASSETS (LIABILITIES) AT FAIR VALUE				
Collateral Held Under Securities Lending Agreements	$ 22,205,390	$ -	$ 22,205,390	$ -
Margin Variation Receivable - Futures Contracts	120,690	120,690	-	-
Obligations Under Securities Lending Agreements	(22,205,390)	-	(22,205,390)	-
Total Other Assets (Liabilities) Measured at Fair Value	$ 120,690	$ 120,690	$ -	$ -

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 exchange traded stocks traded in inactive markets. 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, a commingled investment fund managed by the WSIB. 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 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.

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	$ 532,988,212	$ 55,164,887	$ 296,803,564	$ 178,059,671	$ 2,960,090	4.4	Schedule 2
Investments Not Required to be Categorized							
Equity Securities	773,816,413						
Cash and Cash Equivalents	45,589,742						
Total Investments Not Categorized	819,406,155						
Total Investments	$ 1,352,394,367						

* Duration excludes cash and cash equivalents

Schedule 2: Additional Credit Rating Disclosures

Moody's Equivalent Credit Rating	Commingled Intermediate Credit Total Fair Value
Aaa	$ 33,847,545
Aa1	7,312,915
Aa2	22,213,653
Aa3	44,679,467
A1	91,155,588
A2	66,634,920
A3	60,102,283
Baa1	76,969,311
Baa2	62,951,544
Baa3	61,661,102
Ba1 or Lower	5,459,884
Total Fair Value	$ 532,988,212

Schedule 3: Foreign Currency Exposure by Currency

Foreign Currency Denomination	Investment Type In U.S. Dollar Equivalent: Cash and Cash Equivalents	Equity Securities	Total	Percent of Total GET Funds Investments
AUSTRALIAN DOLLAR	$ 229,570	$ 17,210,145	$ 17,439,715	1.3%
BRAZILIAN REAL	58,654	6,875,354	6,934,008	0.5%
CANADIAN DOLLAR	152,910	23,719,868	23,872,778	1.8%
SWISS FRANC	11,165	20,499,557	20,510,722	1.5%
DANISH KRONE	7,200	4,039,504	4,046,704	0.3%
EURO CURRENCY	284,559	73,974,550	74,259,109	5.4%
POUND STERLING	393,917	40,380,200	40,774,117	3.0%
HONG KONG DOLLAR	342,729	28,037,137	28,379,866	2.1%
INDIAN RUPEE	583,306	8,735,941	9,319,247	0.7%
JAPANESE YEN	518,568	58,405,431	58,923,999	4.4%
SOUTH KOREAN WON	509,729	11,737,212	12,246,941	0.9%
SWEDISH KRONA	9,413	7,555,315	7,564,728	0.6%
SINGAPORE DOLLAR	85,837	3,422,949	3,508,786	0.3%
NEW TAIWAN DOLLAR	231,741	10,345,277	10,577,018	0.8%
SOUTH AFRICAN RAND	36,504	5,314,274	5,350,778	0.4%
OTHER - MISCELLANEOUS	1,609,703	20,596,234	22,205,937	1.6%
	$ 5,065,505	$ 340,848,948	$ 345,914,453	25.6%

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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 Guaranteed Education Tuition Fund as of and for the year ended June 30, 2019, 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 25, 2019.

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 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

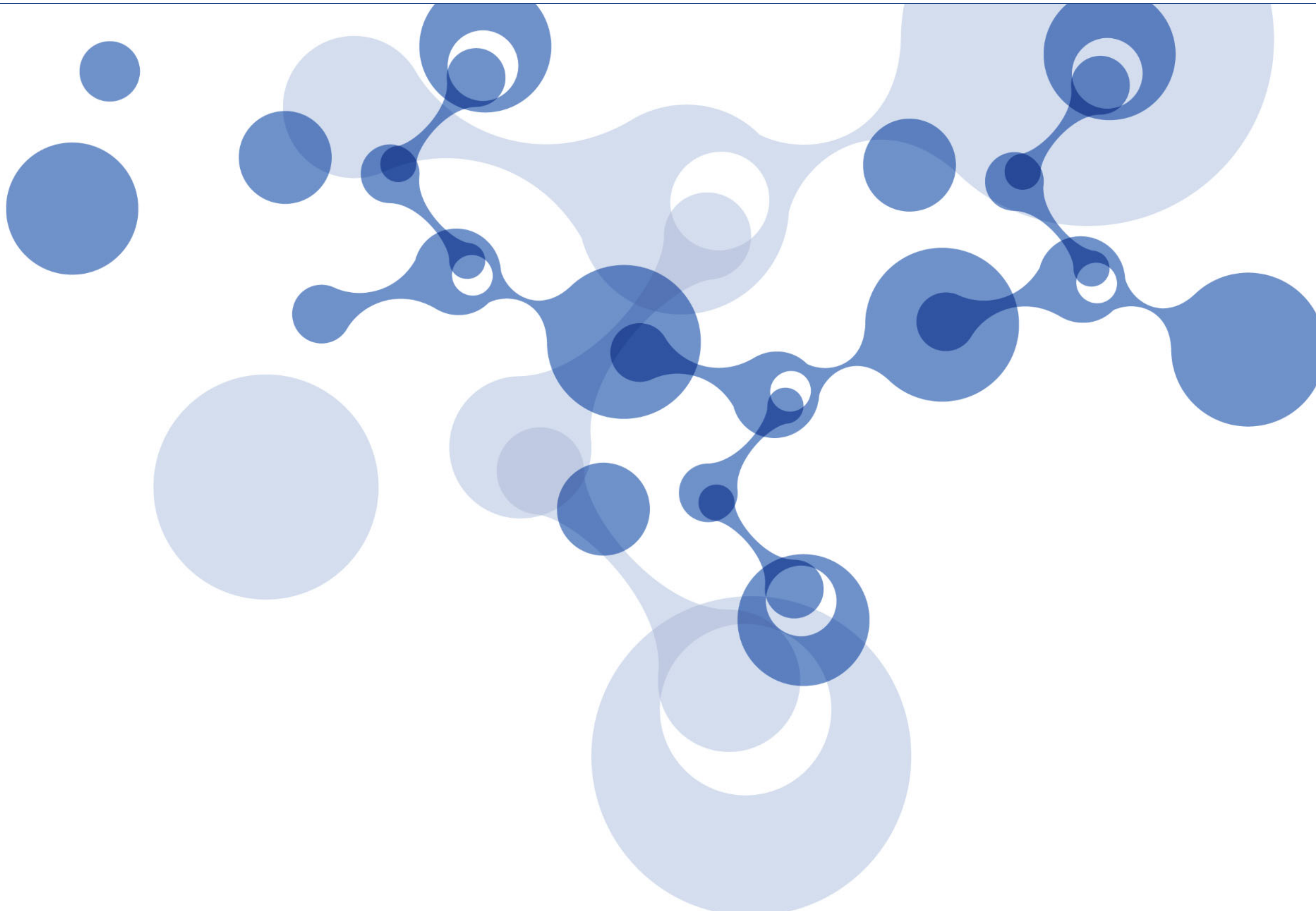
As part of obtaining reasonable assurance about whether the Guaranteed Education Tuition Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and 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 25, 2019



DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST 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 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, 2019, 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, 2019, 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 25, 2019 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 25, 2019

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, 2019. 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, 2019. The following table compares the net investment position of each major investment classification at June 30, 2019 with those at June 30, 2018. In addition, the table summarizes the changes in each major investment classification for the fiscal year, and it compares 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 DDEF financial statements.

As shown in the following table, the net investment position of the DDEF increased by $7.7 million for the fiscal year ended June 30, 2019. Participants net contributions to the DDEF during the year increased net investment position by $2.0 million and were invested in balanced funds. Net realized and unrealized gains increased net investment position by $4.4 million. The remaining increase was attributable to net investment income reinvested within the fund.

Net investment income increased by $1.4 million during the current fiscal year as compared to the prior year largely due to increases in net realized and unrealized gains. This was the result of an increase in investment returns over the prior fiscal year in all asset classes except equity securities. The current fiscal year return for the DDEF was 8.6 percent compared to the prior year return of 7.2 percent.

Contributions increased by $1.5 million during the current fiscal year compared to the previous fiscal year. The DDEF experienced steady growth in the number of participants in the program. However, the cash flows may increase or decrease from year to year, as individual participant behavior is hard to predict.

DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST FUND

Summarized Change in Net Investment Position and Returns by Asset Class												
	Fiscal Year End June 30, 2019					Fiscal Year End June 30, 2018					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	$ 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%
Investment Income:												
Interest, Dividends, and Other Investment Income	1,543	-	2,107	1,281,587	1,285,237	482	-	1,267	1,073,614	1,075,363	209,874	19.5%
Realized and Unrealized Gains (Losses)	-	694,209	200,006	3,523,441	4,417,656	-	(28,230)	264,118	3,015,495	3,251,383	1,166,273	35.9%
Less: Investment Expenses	(122)	(333)	(1,393)	(2,953)	(4,801)	(71)	(394)	(598)	(2,781)	(3,844)	957	24.9%
Net Investment Income (Loss)	1,421	693,876	200,720	4,802,075	5,698,092	411	(28,624)	264,787	4,086,328	4,322,902	1,375,190	31.8%
Net Amount Contributed	2,002,391	-	-	-	2,002,391	502,375	-	-	-	502,375	1,500,016	298.6%
Transfers to Other Asset Classes	(2,003,825)	(2,539,667)	2,541,204	2,002,288	-	(503,579)	300,394	(299,372)	502,557	-	NA	NA
Ending Net Investment Position	**$ 29,452**	**$ 8,634,495**	**$ 5,034,383**	**$ 58,823,221**	**$ 72,521,551**	**$ 29,465**	**$ 10,480,286**	**$ 2,292,459**	**$ 52,018,858**	**$ 64,821,068**	**$ 7,700,483**	**11.9%**

	Cash and Cash Equivalents (*)	Debt Securities	Equity Securities (*)	Balanced Funds	Total
Increase (Decrease) in Net Investment Position	**$ (13)**	**$ (1,845,791)**	**$ 2,741,924**	**$ 6,804,363**	**$ 7,700,483**
Percent Change in Net Investment Position	**Trace**	**-17.6%**	**119.6%**	**13.1%**	**11.9%**
One Year Time Weighted Return - June 30, 2019	**2.1%**	**8.5%**	**4.9%**	**8.9%**	**8.6%**
One Year Time Weighted Return - June 30, 2018	**1.2%**	**-0.2%**	**11.5%**	**8.6%**	**7.2%**

(*) 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, 2019 increased over the prior fiscal year to 2.1 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. The Federal Reserve increased the target range for the federal funds rate two times during this fiscal year, for a total increase of 50 basis points. The Net Investment Position of Cash and Cash Equivalents include accrued income and accrued expenses.

- ***Debt securities*** net investment position decreased by $1.8 million. Debt securities were sold and the proceeds of $2.5 million were reinvested in equity securities in order to maintain strategic asset allocation targets. The DDEF invests in the Daily Valued Bond Fund, a commingled investment fund managed by the WSIB. Accordingly, interest income is retained and reinvested within the commingled fund, which is reflected in net realized and unrealized gains and losses. Net realized and unrealized gains increased net investment position by $0.7 million as a result of strong returns in the fixed income portfolio. The return of the portfolio for the current fiscal year was 8.5 percent, which is a substantial increase over the prior fiscal year end return of (0.2) percent. This resulted in an increase of net realized and unrealized gains from the previous year. Debt securities outperformed its benchmark of 8.2 percent which is the Bloomberg Barclays U.S. Intermediate Credit Index. Contributing factors to the Daily Valued Bond Funds outperformance include security selection, industry allocation within credit bonds, and the maturity profile of the fund compared to the benchmark.

  The Federal Reserve raised the target interest rate in September in an effort to avoid falling behind on potential inflationary pressure. With no sign of rate increases coming to an end, sharp slowdown in eurozone business confidence, weaker Chinese growth, and rising geopolitical risks, including Brexit and trade tension between the U.S. and China, global market volatility increased significantly in December 2018. Following the May 2019 announcement that the U.S. would move forward with tariff increases on U.S. imports from China, equity markets took a large hit, causing massive sell-offs in global equity. Confronted by weaker economic data, and with trade tensions and inflation at bay, both the Federal Reserve and the European Central Bank (ECB) indicated that they were ready to ease monetary policy and further help stimulate the economy. Easy monetary policy, weak growth, and trade concerns pushed developed market bond yields to historic lows and led to yield curve inversion in the U.S. This supported strong price-driven returns from fixed income during the current fiscal year.

Overall, fixed income indexes had a great year, with U.S. interest rates down across the curve. The broad Bloomberg Barclays Universal index returned 8.1 percent for the one-year period. Credit spreads widened slightly during the fiscal year, with the high yield spread ending the year at 377 basis points, up 14 basis points from the previous fiscal year-end. Investment grade credits did marginally better than their high yield counterparts, with the spread narrowing 8 basis points for the one-year period. This led the corporate credit index to a robust 10.3 percent annual return.

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

- ***Balanced mutual funds*** net investment position increased by $6.8 million. Private trust fund contributions of $2.0 million were invested in this asset class and increased the net investment position. Realized and unrealized gains increased the portfolio by $3.5 million. The remaining increase was due to the reinvestment of income within the balanced mutual fund. The 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 8.9 percent. The increase in the return from the prior year of 8.6 percent was a result of increased returns in the fixed income markets, which were offset by declining returns in the equity markets. The increase in returns resulted in an increase of $0.5 million of net realized and unrealized gains from the previous fiscal year.

Breaking out the performance of the benchmark by each asset class represented in the balanced mutual funds, the U.S equity market returned 9.0 percent (as measured by the Center for Research in Security Prices or CRSP), and the broad Bloomberg Barclays Universal index returned 8.1 percent. Both of these indices are broad barometers of overall market returns for U.S. equity and fixed income, respectively. Investors continued to find equities an attractive investment in a low interest rate environment, though heightened geopolitical tensions, trade conflicts, and a shaky macroeconomic backdrop noticeably increased market volatility. Dovish central bank activity around the globe managed to support equity markets in the first six months of 2019. Most regions traded higher, but as with fiscal year 2018, the U.S. equity market posted better performance relative to non-U.S. developed and emerging market equities. In the U.S., smaller cap stocks generally underperformed their larger cap peers, but performed in line with the broader market. Easy monetary policy, weak growth, and trade concerns pushed developed market bond yields to historic lows and led to yield curve inversion in the U.S. This supported strong price-driven returns from fixed income during the current fiscal year.

See equity securities and debt securities narratives for further market commentary.

- ***Equity securities*** net investment position increased by $2.7 million from the prior fiscal year. During the current fiscal year, the asset allocation targets for state funds changed. The target asset allocation for equities increased from 17 to 35 percent and fixed income decreased from 83 to 65 percent. Fixed income securities were sold and approximately $2.5 million of proceeds were reinvested in equity securities. Realized and unrealized gains increased the portfolio by $0.2. The overall investment return for equity securities in the current fiscal year was 4.9 percent, which was a decrease from the prior fiscal year return of 11.5 percent.

  During the 2019 fiscal year, the DDEF equity portfolio returned 4.9 percent matching the performance of the Morgan Stanley Capital International (MSCI) global index, which is a broad barometer of overall market returns. Investors continued to find equities an attractive investment in a low interest rate environment, though heightened geopolitical tensions, trade conflicts, and a shaky macroeconomic backdrop noticeably increased market volatility. Dovish central bank activity around the globe managed to support equity markets in the first six months of the calendar year 2019. Most regions traded higher, but as with fiscal year 2018, the U.S. equity market posted better performance relative to non-U.S. developed and emerging market equities. In the U.S., smaller cap stocks generally underperformed their larger cap peers, but performed in line with the broader market.

The returns of the various capital markets, within which the WSIB invests, directly impacted the fair value of the DDEF net investment position. These 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, 2019

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	$ 19,420	$ 9,978	$ 29,398	0.1%
DEBT SECURITIES				
Commingled Intermediate Credit	8,634,495	-	8,634,495	11.9%
EQUITY SECURITIES				
Commingled Equity Index Funds	5,034,740	-	5,034,740	6.9%
BALANCED FUNDS				
Balanced Mutual Funds	-	58,823,221	58,823,221	81.1%
Total Investments	13,688,655	58,833,199	72,521,854	100.0%
Investment Earnings Receivable	40	20	60	
Total Assets	13,688,695	58,833,219	72,521,914	
LIABILITIES				
Accrued Expenses Payable	361	2	363	
NET INVESTMENT POSITION	**$ 13,688,334**	**$ 58,833,217**	**$ 72,521,551**	

DDEF Statement of Changes in Net Investment Position - Year Ended June 30, 2019

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	$ 2,697	$ 1,282,540	$ 1,285,237
Net Realized and Unrealized Gains	894,215	3,523,441	4,417,656
Less:			
Investment Expenses	(1,318)	(1,092)	(2,410)
WSIB Operating Expenses	(2,391)	-	(2,391)
Net Investment Income	893,203	4,804,889	5,698,092
Net Amount Contributed	2,391	2,000,000	2,002,391
Increase in Net Investment Position	895,594	6,804,889	7,700,483
Net Investment Position, June 30, 2018	12,792,740	52,028,328	64,821,068
Net Investment Position, June 30, 2019	$ 13,688,334	$ 58,833,217	$ 72,521,551

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 to the basic financial statements found in Note 4.

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, 2019, 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.

Schedules 1 and 2 provide information about the interest rate risks associated with the DDEF investments, as of June 30, 2019. 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, 2019, 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, 2019.

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, 2019, consists of $2.1 million (excludes U.S. dollar denominated securities) invested in various global commingled equity index funds. Foreign currency exposure for these commingled equity index funds are 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.

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, 2019:

		Fair Value Measurements Using:		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
INVESTMENTS				
BALANCED FUNDS				
Balanced Mutual Funds	$ 58,823,221	$ 58,823,221	$ -	$ -
Total Investments By Fair Value Level	58,823,221	58,823,221	-	-
COMMINGLED INVESTMENT FUNDS - INVESTMENTS MEASURED AT NET ASSET VALUE				
Commingled Equity Index Funds	5,034,740			
Commingled Intermediate Credit	8,634,495			
Total Investments at Net Asset Value	13,669,235			
Total Investments Measured at Fair Value	$ 72,492,456			

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 28, 2019, was $37.07 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 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	65%	62%-68%
Global Equity	35%	32%-38%

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	$ 8,634,495	$ 893,680	$ 4,808,265	$ 2,884,596	$ 47,954	4.4	Schedule 2
Investments Not Required to be Categorized							
Commingled Equity Index Funds	5,034,740						
Balanced Mutual Funds	58,823,221						
Money Market Funds	29,398						
Total Investments Not Categorized	63,887,359						
Total Investments	$ 72,521,854						

Schedule 2: Additional Credit Rating Disclosures

Moody's Equivalent Credit Rating	Commingled Intermediate Credit Market Value
Aaa	$ 548,336
Aa1	118,470
Aa2	359,865
Aa3	723,815
A1	1,476,735
A2	1,079,496
A3	973,667
Baa1	1,246,915
Baa2	1,019,825
Baa3	998,920
Ba1 or Lower	88,451
Total Fair Value	$ 8,634,495

Schedule 3: Foreign Currency Exposure

Foreign Currency Denomination	Equity Securities	Percent of Total Investments
AUSTRALIAN DOLLAR	$ 111,064	0.2%
BRAZILIAN REAL	44,926	0.1%
CANADIAN DOLLAR	154,673	0.2%
SWISS FRANC	132,430	0.2%
DANISH KRONE	473,358	0.6%
EURO CURRENCY	154,156	0.2%
POUND STERLING	175,684	0.2%
HONG KONG DOLLAR	56,601	0.1%
INDONESIAN RUPIAH	375,688	0.4%
INDIAN RUPEE	74,618	0.1%
JAPANESE YEN	47,392	0.1%
SOUTH KOREAN WON	68,473	0.1%
MALAYSIAN RINGGIT	40,395	0.1%
OTHER (MISC)	186,949	0.3%
Total Foreign Currency Exposure	$ 2,096,407	2.9%

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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, 2019, 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 25, 2019.

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.

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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 25, 2019

WASHINGTON STATE OPPORTUNITY SCHOLARSHIP 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 Washington State Opportunity Scholarship Fund (which is comprised of WSOS – Scholarship Fund, WSOS – Endowment Fund, and WSOS – Cash Reserve Fund) of the state of Washington as managed by the Washington State Investment Board (the Washington State Opportunity Scholarship Fund), which comprise the statement of net investment position as of June 30, 2019, 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 Washington State Opportunity Scholarship Fund as of June 30, 2019, 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 25, 2019 on our consideration of the Washington State Opportunity Scholarship 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 Washington State Opportunity Scholarship 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 Washington State Opportunity Scholarship Fund's internal control over financial reporting and compliance.

Eide Bailly LLP

Boise, Idaho

September 25, 2019

Management Discussion and Analysis

Management's Discussion and Analysis for the Washington State Opportunity Scholarship (WSOS) 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 covers the WSOS Fund 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 WSOS Fund, as of June 30, 2019. 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 WSOS Fund, for the year ended June 30, 2019. The following table compares the net investment position of each major investment classification at June 30, 2019 with those at June 30, 2018. In addition, they summarize the changes in each major investment classification for the fiscal year ended June 30, 2019 and 2018, 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 WSOS Fund.

As shown in the following table, the net investment position of the WSOS Fund increased by $11.2 million during the fiscal year ended June 30, 2019. Net contributions from the WSOS Fund during the year increased net investment position by $6.3 million. Net investment income increased net investment position by $4.9 million and was reinvested in the various asset classes of the WSOS Fund.

Net investment income increased by $0.3 million during the current fiscal year as compared to the prior year, mainly due to an increase in net realized and unrealized gains. Substantial increases in returns year over year in fixed income securities drove the increase in net realized and unrealized gains. The equity market returns decreased substantially from the prior year, offsetting some market gains in the fixed income portfolio. The current fiscal year return for the WSOS Fund was 5.0 percent, compared to the prior fiscal year return of 5.3 percent.

The WSOS Fund administrator oversees the operations and determines funds available for investment to or withdrawals from invested balances to fund scholarships and operational expenses. The administrator remitted $5.0 million less in contributions this fiscal year as compared to the prior year. Private donations and state matching funds of $6.3 million were received from the administrator as contributions and reinvested pursuant to WSOS Fund's asset allocation policy in cash, debt, and equity securities.

As a result of an asset allocation study, the Board members of the WSIB approved a new asset allocation policy for the WSOS Private Scholarship Fund. The new policy increased the target asset allocations to cash by 5 percent, decreased the public equity allocation by 35 percent, and increased the fixed income allocation by 30 percent. A large rebalancing transfer of approximately $22 million was done in November 2018 and is reflected in the transfers section of the following table.

WASHINGTON STATE OPPORTUNITY SCHOLARSHIP FUND

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, 2019				Fiscal Year End June 30, 2018				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	$ 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%
Investment Income:										
Interest, Dividends, and Other Investment Income	352,795	-	8,944	361,739	347,942	-	12,313	360,255	1,484	0.4%
Realized and Unrealized Gains (Losses)	-	4,081,760	491,896	4,573,656	-	(123,582)	4,374,609	4,251,027	322,629	7.6%
Less: Investment Expenses	(32,820)	(7,388)	(18,673)	(58,881)	(58,680)	(5,616)	(17,596)	(81,892)	(23,011)	-28.1%
Net Investment Income (Loss)	319,975	4,074,372	482,167	4,876,514	289,262	(129,198)	4,369,326	4,529,390	347,124	7.7%
Net Contribution by WSOS	6,332,062	-	-	6,332,062	11,362,773	-	-	11,362,773	(5,030,711)	-44.3%
Transfers to Other Asset Classes	(2,736,350)	22,150,308	(19,413,958)	-	(24,849,180)	12,849,786	11,999,394	-	-	NA
Ending Net Investment Position	**$ 16,721,955**	**$ 54,866,850**	**$ 33,032,445**	**$ 104,621,250**	**$ 12,806,268**	**$ 28,642,170**	**$ 51,964,236**	**$ 93,412,674**	**$ 11,208,576**	**12.0%**
Increase (Decrease) in Net Investment Position	**$ 3,915,687**	**$ 26,224,680**	**$ (18,931,791)**	**$ 11,208,576**						
Percent Change in Net Investment Position	**30.6%**	**91.6%**	**-36.4%**	**12.0%**						
One Year Time Weighted Return - June 30, 2019	**2.1%**	**8.5%**	**5.8%**	**5.0%**						
One Year Time Weighted Return - June 30, 2018	**1.2%**	**-0.2%**	**11.4%**	**5.3%**						

(*) 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 increased during the current fiscal year by $3.9 million. Contributions of $6.3 million were received from the administrator for investment in the private scholarship fund. Approximately $2.7 million was subsequently transferred to the debt portfolio. The target asset allocation for the private scholarship fund cash investments was increased from zero to 5 percent, which resulted in $3.6 million of contributions remaining invested in cash. The remaining increase was due to net investment income reinvested within the fund.

  Cash returns for the one-year period ended June 30, 2019, increased over the prior fiscal year to 2.1 percent, which resulted 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. The Federal Reserve increased the target range for the federal funds rate two times during this fiscal year, for a total of 50 basis points. The Net Investment Position of Cash and Cash Equivalents include accrued income and accrued expenses.

- ***Debt securities*** net investment position increased by $26.2 million over the prior year. During the current fiscal year, the target asset allocation for fixed income in the private scholarship fund was increased from 40 to 70 percent. Approximately $19.4 million of equity securities were sold and the proceeds were reinvested in debt securities to rebalance to the newly approved strategic targets. The remaining rebalancing transfer of $2.7 million was funded from existing cash balances. The remaining increase in the net investment position was net investment income retained in the portfolio.

The WSOS Fund invests in the Daily Valued Bond Fund, a commingled investment 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. The return of the portfolio for the current fiscal year was 8.5 percent, which is a substantial increase over the prior fiscal year end return of (0.2) percent. This resulted in an increase of net realized and unrealized gains and losses from the previous fiscal year of $4.2 million. Debt securities outperformed its benchmark of 8.2 percent set by the Bloomberg Barclays U.S. Intermediate Credit Index. Security selection, industry allocation within credit bonds, and the maturity profile of the fund compared to the benchmark are all contributing factors to the Daily Valued Bond Fund outperforming its benchmark.

The Federal Reserve raised the target interest rate in September in an effort to avoid falling behind on potential inflationary pressure. With no sign of rate increases coming to an end, sharp slowdown in eurozone business confidence, weaker Chinese growth, and rising geopolitical risks, including Brexit and trade tension between the U.S. and China, global market volatility increased significantly in December 2018. Following the May 2019 announcement that the U.S. would move forward with tariff increases on U.S. imports from China, equity markets took a large hit causing massive sell-offs in global equity. Confronted by weaker economic data, trade tensions and inflation at bay, both the Federal Reserve and the European Central Bank (ECB) indicated that they were ready to ease monetary policy and further help stimulate the economy. Easy monetary policy, weak growth, and trade concerns pushed developed market bond yields to historic lows, and in the U.S. led to yield curve inversion. This supported strong price-driven returns from fixed income during the current fiscal year.

Overall fixed income indexes had a great year, with U.S. interest rates down across the curve. The broad Bloomberg/Barclays Universal index returned 8.1 percent for the one-year period. Credit spreads widened slightly during the fiscal year, with the high yield spread ending the year at 377 basis points, up 14 basis points from previous fiscal year-end. Investment grade credits did marginally better than their high yield counterparts, with the spread narrowing 8 basis points for the one-year period, leading the corporate credit index to a robust 10.3 percent annual return.

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

- ***Equity securities*** net investment position decreased by $18.9 million. The majority of this decrease is due to the sale of equity securities and reinvestment of the proceeds in the fixed income portfolio of $19.4 million in order to meet the new asset allocation targets as discussed previously. The remaining increase is due to net realized and unrealized gains within the portfolio of $0.5 million. The equity portfolio returned 5.8 percent during the current fiscal year, as compared to the prior fiscal year return of 11.4 percent. This resulted in a decrease of net realized and unrealized gains and losses over the prior fiscal year of $3.9 million.

The WSOS Fund’s global equity portfolio is passively managed and is structured to closely track the performance of its global benchmark. Overall, the global equity benchmark returned 4.9 percent as measured by Morgan Stanley Capital International (MSCI) indexes, which are a broad barometer of overall market returns. The WSOS Fund’s global equity portfolio returned 5.8 percent during the fiscal year, which is a substantial decrease over the prior fiscal year of 11.4 percent. The primary driver behind the equity portfolio outperforming its benchmark relates to the timing of the asset allocation rebalancing in the current year. Investors continued to find global equities an attractive investment in a low interest rate environment, though heightened geopolitical tensions, trade conflicts, and a shaky macroeconomic backdrop which noticeably increased market volatility. Dovish central bank activity around the globe managed to support equity markets in the first six months of calendar year 2019. Most regions traded higher, but, as with Fiscal Year 2018, the U.S. equity market posted better performance relative to non-U.S. developed and emerging market equities. In the U.S., smaller cap stocks generally underperformed their larger cap peers, but performed in line with the broader market.

The fair value of the WSOS Fund 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.

Washington State Opportunity Scholarship Fund Statement of Net Investment Position - June 30, 2019

See notes to financial statements

	WSOS - Scholarship Fund	WSOS -Endowment Fund	WSOS - Cash Reserve	Total	Percent of Total
ASSETS					
Investments:					
CASH AND CASH EQUIVALENTS					
Short Term Investment Funds	$ 3,720,434	$ 12,955,068	$ 15,239	$ 16,690,741	16.0%
DEBT SECURITIES					
Commingled Intermediate Credit	51,790,038	3,076,812	-	54,866,850	52.5%
EQUITY SECURITIES					
Commingled Equity Index Funds	18,744,917	14,289,509	-	33,034,426	31.6%
Total Investments	74,255,389	30,321,389	15,239	104,592,017	100.0%
Investment Earnings Receivable	7,569	26,357	32	33,958	
Total Assets	74,262,958	30,347,746	15,271	104,625,975	
LIABILITIES					
Accrued Expenses Payable	1,725	2,997	3	4,725	
NET INVESTMENT POSITION	**$ 74,261,233**	**$ 30,344,749**	**$ 15,268**	**$ 104,621,250**	

Washington State Opportunity Scholarship Fund Statement of Changes in Net Investment Position - Year Ended June 30, 2019

See notes to financial statements

	WSOS - Scholarship Fund	WSOS -Endowment Fund	WSOS - Cash Reserve	Total
Net Investment Income				
Investment Income:				
Interest, Dividends and Other Investment Income	$ 60,163	$ 301,289	$ 287	$ 361,739
Net Realized and Unrealized Gains	3,664,020	909,636	-	4,573,656
Less:				
Investment Expenses	(11,516)	(29,538)	(25)	(41,079)
WSIB Operating Expenses	(12,362)	(5,440)	-	(17,802)
Net Investment Income	3,700,305	1,175,947	262	4,876,514
Cash Transfers	13,089	5,925	(19,014)	-
Net Amount Contributed	6,312,062	-	20,000	6,332,062
Increase in Net Investment Position	10,025,456	1,181,872	1,248	11,208,576
Net Investment Position, June 30, 2018	64,235,777	29,162,877	14,020	93,412,674
Net Investment Position, June 30, 2019	$ 74,261,233	$ 30,344,749	$ 15,268	$ 104,621,250

Notes to Financial Statements

Note 1. Description of Funds and Significant Accounting Policies

Description of Funds

The Washington State Opportunity Scholarship Fund 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 WSOS Fund is granted to the Washington State Investment Board, in accordance with Revised Code of Washington (RCW) 28B.145.090. The WSOS Fund 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 WSOS Fund 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 WSOS Fund 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 to the basic financial statements found in Note 4.

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 WSOS 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 WSOS Fund will not be able to recover the value of its deposits, investments, or collateral securities. As of June 30, 2019, investment securities (excluding cash and cash equivalents) are registered and held in the name of the WSIB, for the benefit of the WSOS 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. This 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 WSOS Fund's 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 WSOS Fund's investments, as of June 30, 2019. 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 WSOS Fund's 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 WSOS Fund's rated debt investments, as of June 30, 2019, 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 WSOS Fund fair value at the time of purchase, nor shall its fair value exceed 6 percent of the WSOS Fund fair value at any time. There was no concentration of credit risk that exceeded these limits as of June 30, 2019.

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 WSOS Fund has no formal policy to limit foreign currency risk. The only security held by the WSOS Fund with foreign currency exposure at June 30, 2019 consists of $14.4 million invested in an international commingled equity index funds (MSCI All Country World Investible Market Index). The WSOS Fund'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 WSOS Fund 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 WSOS Fund invests in Collective Investment Trusts operated by a bank or trust company and groups assets contributed into a commingled investment fund. In addition, the WSOS Fund 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 WSOS Fund 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, 2019:

	Fair Value
INVESTMENTS	
INVESTMENTS MEASURED AT NET ASSET VALUE	
Commingled Equity Index Funds	$ 33,034,426
Commingled Intermediate Credit	54,866,850
Total Investments at Net Asset Value	87,901,276
Total Investments Measured at Fair Value	$ 87,901,276

Note 5. Summary of Investment Policy

Under RCW 43.33A.030, trusteeship of WSOS Fund 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 WSOS Fund 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 WSOS Fund 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.

Scholarship and Endowment Account

The state provides matching funds to WSOS Fund 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

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 Fund, with a benchmark of the Bloomberg Barclays U.S. Intermediate Credit Index. In addition, the WSIB Bond Fund duration range shall not exceed plus or minus 15 percent of the duration of this index.

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

Private Fund Scholarship		
	Target	**Range**
Cash	5%	0%-10%
Public Equity	25%	20%-30%
Fixed Income	70%	65%-75%

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

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	$ 54,866,850	$ 5,678,782	$ 30,553,539	$ 18,329,811	$ 304,718	4.4	Schedule 2
Investments Not Required to be Categorized							
Commingled Equity Index Funds	33,034,426						
Short Term Investment Funds	16,690,741						
Total Investments Not Categorized	49,725,167						
Total Investments	$ 104,592,017						

Schedule 2: Additional Credit Rating Disclosures

Moody's Equivalent Credit Rating	Commingled Intermediate Credit Market Value
Aaa	$ 3,484,333
Aa1	752,806
Aa2	2,286,717
Aa3	4,599,392
A1	9,383,733
A2	6,859,529
A3	6,187,047
Baa1	7,923,371
Baa2	6,480,355
Baa3	6,347,515
Ba1 and Lower	562,052
Total Fair Value	$ 54,866,850

Schedule 3: Foreign Currency Exposure

Foreign Currency Denomination	Equity Securities	Percent of Total Investments
AUSTRALIAN DOLLAR	$ 718,791	0.7%
BRAZILIAN REAL	293,447	0.3%
CANADIAN DOLLAR	1,013,448	1.0%
SWISS FRANC	865,939	0.8%
EURO CURRENCY	3,056,814	2.9%
POUND STERLING	1,692,372	1.6%
HONG KONG DOLLAR	1,132,125	1.1%
INDIAN RUPEE	369,383	0.4%
JAPANESE YEN	2,451,544	2.3%
SOUTH KOREAN WON	485,382	0.5%
SWEDISH KRONA	309,392	0.3%
NEW TAIWAN DOLLAR	446,805	0.4%
SOUTH AFRICAN RAND	225,613	0.2%
OTHER MISCELLANEOUS CURRENCIES	1,356,038	1.3%
Total Foreign Currency Exposure	$ 14,417,093	13.8%

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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 Fund as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Washington State Opportunity Scholarship Fund's financial statements, and have issued our report thereon dated September 25, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Washington State Opportunity Scholarship 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 Washington State Opportunity Scholarship Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Washington State Opportunity Scholarship 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 Washington State Opportunity Scholarship 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 Washington State Opportunity Scholarship 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 Washington State Opportunity Scholarship Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Boise, Idaho
September 25, 2019

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, 2019, 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 Daily Valued Funds as of June 30, 2019, 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 25, 2019 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 25, 2019

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, 2019. 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, 2019. The following table compares the net investment position of each major investment classification at June 30, 2019, with those at June 30, 2018. In addition, the table summarizes the changes in each major investment classification for the fiscal year, and it compares 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 DVF financial statements.

As shown in the following table, the net investment position of the DVF increased by $229.5 million during the fiscal year ended June 30, 2019. Net contributions to the DVF by participants during the year increased net investment position by $49.5 million. Net investment income of $180.0 million increased the net investment position of the DVF over the previous year.

Summarized Change in Net Investment Position and Returns by Asset Class	Fiscal Year End June 30, 2019				Fiscal Year End June 30, 2018				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 (**)	$ 1,675,506,073	$ 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%
Investment Income:										
Interest, Dividends, and Other Investment Income	55,603,409	21,618,854	2,110,590	79,332,853	59,011,911	18,145,773	2,016,743	79,174,427	158,426	0.2%
Realized and Unrealized Gains (Losses)	86,310,436	2,056	14,926,421	101,238,913	(63,570,611)	11,325	4,443,880	(59,115,406)	160,354,319	271.3%
Less: Investment Expenses	(280,091)	(222,561)	(84,559)	(587,211)	(417,359)	(164,895)	(79,154)	(661,408)	(74,197)	-11.2%
Net Investment Income (Loss)	141,633,754	21,398,349	16,952,452	179,984,555	(4,976,059)	17,992,203	6,381,469	19,397,613	160,586,942	827.9%
Net Amount Contributed (Withdrawn)	31,259,995	2,281,097	15,969,685	49,510,777	(196,644,082)	(25,501,256)	39,909,897	(182,235,441)	231,746,218	127.2%
Ending Net Investment Position (**)	**$ 1,848,399,822**	**$ 887,842,706**	**$ 367,234,733**	**$ 3,103,477,261**	**$ 1,675,506,073**	**$ 864,163,260**	**$ 334,312,596**	**$ 2,873,981,929**	**$ 229,495,332**	**8.0%**
Increase (Decrease) in Net Investment Position	**$ 172,893,749**	**$ 23,679,446**	**$ 32,922,137**	**$ 229,495,332**						
Percent Change in Net Investment Position	**10.3%**	**2.7%**	**9.8%**	**8.0%**						
One Year Time Weighted Return - June 30, 2019	**8.5%**	**2.5%**	**4.9%**	**NA**						
One Year Time Weighted Return - June 30, 2018	**-0.2%**	**2.1%**	**2.1%**	**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 $160.6 million higher than the previous fiscal year largely due to an increase in net realized and unrealized gains within the Bond Fund. The Bond Fund's returns were significantly higher from the previous fiscal year, and the resulting increase in investment gains drove the majority of this increase. The returns in the TIPS Fund were also higher this fiscal year and contributed to the increase in realized and unrealized gains. The Savings Pool had a slight increase in returns, mainly due to an increase in interest earnings as a result of rising interest rates during the current fiscal year. As Guaranteed Insurance Contracts (GICs) matured, the WSIB reinvested the proceeds in securities with higher interest rates. Approximately $116.0 million of GICs matured during the current fiscal year end, with interest rates ranging from 1.4 percent to 1.8 percent. Proceeds from these maturities were reinvested in higher interest rate contracts with interest rates ranging from 3.0 percent to 3.6 percent.

Performance for the Bond Fund for the fiscal year ended June 30, 2019, was 8.5 percent which substantially outperformed its benchmark, the Bloomberg Barclays U.S. Intermediate Credit Index, of 8.2 percent. Contributing factors to the Bond Fund's outperformance include security selection, industry allocation within credit bonds, and the maturity profile of the fund compared to the benchmark. The decrease in interest rates drove up the prices for both U.S. Treasuries and credit bonds this year. Performance for the TIPS Fund was 4.9 percent for the year, which outperformed its benchmark return, the Bloomberg Barclays Capital U.S. Treasury Inflation Protected Securities Index, of 4.8 percent. Increased returns in the savings pool were due to rising interest rates, which resulted in increased interest earnings.

The Federal Reserve raised the target interest rate in September in an effort to avoid falling behind on potential inflationary pressure. With no sign of rate increases coming to an end, sharp slowdown in eurozone business confidence, weaker Chinese growth, and rising geopolitical risks, including Brexit and trade tension between the U.S. and China, global market volatility increased significantly in December 2018. Following the May 2019 announcement that the U.S. would move forward with tariff increases on U.S. imports from China, equity markets took a large hit, causing massive selloffs in global equity. Confronted by weaker economic data, and with trade tensions and inflation at bay, both the Federal Reserve and the European Central Bank (ECB) indicated they were ready to ease monetary policy and further help stimulate the economy. Easy monetary policy, weak growth, and trade concerns pushed developed market bond yields to historic lows, which led to yield curve inversion in the U.S. This supported strong price-driven returns from fixed income during the current fiscal year.

Overall, fixed income indexes had a great year, with U.S. interest rates down across the curve. The broad Bloomberg/Barclays Universal index returned 8.1 percent for the one-year period. Credit spreads widened slightly during the fiscal year, with the high yield spread ending the year at 377 basis points, up 14 basis points from the previous fiscal year-end. Investment-grade credits did marginally better than their high yield counterparts with the spread narrowing 8 basis points for the one-year period. This led the corporate credit index to a robust 10.3 percent annual return.

Net contributions and withdrawals from the DVF increased $231.7 million during the current fiscal year as compared to the prior fiscal year. Contributions to the Bond Fund increased $227.9 million over the previous year, which represents the majority of this year over year change. In the previous year, the Guaranteed Education Tuition (GET) Fund, a participant in the Bond Fund, withdrew $250.0 million in anticipation of participant roll overs to the newly created IRS Section 529 Plan. Legislation enacted during the previous fiscal year allowed certain existing GET participants to roll their entire account balances into the new DreamAhead College Investment Plan. The roll over window closed in September 2018. See the GET Fund audited financial statements for additional information.

DAILY VALUED FUNDS

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 are reflected in each asset class's net investment position. These include investments purchased and sold pending settlement over year end, income receivables and expenses payable. 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 $6.8 million, and collateral held under securities lending agreements decreased accordingly. The Federal Reserve Bank continued its large debt issuance of U.S. Government Bonds, which led to an oversupply in the market. This resulted in less demand to borrow U.S. Treasury Bills and Bonds. Generally, borrower demand in the DVF is driven by specific holdings in the TIPS Fund, which declined during the current fiscal year.

	June 30, 2019	June 30, 2018	Increase (Decrease)	Percent Change
Securities on Loan Fiscal Year End	$ 5,182,503	$ 12,031,152	$ (6,848,649)	-56.9%
Collateral Held Under Securities Lending Agreements	$ 5,315,324	$ 12,118,427	$ (6,803,103)	-56.1%

The returns of the various capital markets, within which the WSIB invests, directly impact the fair value of the DVF net investment position. These returns are expected to have a significant effect on our 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.

Daily Valued Funds (DVF) Statement of Net Investment Position - June 30, 2019

See notes to financial statements

	Bond Fund	Savings Pool	TIPS Fund	Total	Percent of Total
ASSETS					
Investments					
CASH AND CASH EQUIVALENTS	$ 32,972,882	$ 91,272,481	$ 3,716,216	$ 127,961,579	4.1%
DEBT SECURITIES					
Corporate Bonds	1,586,008,963	-	-	1,586,008,963	
U.S. Government and Agency Securities	38,072,070	-	362,660,093	400,732,163	
Guaranteed Insurance Contracts	-	796,286,832	-	796,286,832	
Foreign Government and Agencies	192,987,117	-	-	192,987,117	
Total Debt Securities	1,817,068,150	796,286,832	362,660,093	2,976,015,075	95.9%
Total Investments	1,850,041,032	887,559,313	366,376,309	3,103,976,654	100.0%
Investment Earnings Receivable	14,351,002	298,275	858,424	15,507,701	
Receivables for Investments Sold	1,021,052	-	-	1,021,052	
Collateral Held Under Securities Lending Agreements	5,315,324	-	-	5,315,324	
Total Assets	1,870,728,410	887,857,588	367,234,733	3,125,820,731	
LIABILITIES					
Accounts Payable	13,264	14,882	-	28,146	
Payable for Investments Purchased	17,000,000	-	-	17,000,000	
Obligations Under Securities Lending Agreements	5,315,324	-	-	5,315,324	
Total Liabilities	22,328,588	14,882	-	22,343,470	
NET INVESTMENT POSITION	$ 1,848,399,822	$ 887,842,706	$ 367,234,733	$ 3,103,477,261	

Daily Valued Funds (DVF) Statement of Changes in Net Investment Position - Year Ended June 30, 2019

See notes to financial statements

	Bond Fund	Savings Pool	TIPS Fund	Total
Net Investment Income				
Investment Income:				
Interest, Dividends and Other Investment Income	$ 55,603,409	$ 21,618,854	$ 2,110,590	$ 79,332,853
Net Realized and Unrealized Gains	86,310,436	2,056	14,926,421	101,238,913
Less: Investment Expenses	(280,091)	(222,561)	(84,559)	(587,211)
Net Investment Income (Loss)	141,633,754	21,398,349	16,952,452	179,984,555
Net Amount Contributed (Withdrawn)	31,259,995	2,281,097	15,969,685	49,510,777
Increase (Decrease) in Net Investment Position	172,893,749	23,679,446	32,922,137	229,495,332
Net Investment Position - June 30, 2018	1,675,506,073	864,163,260	334,312,596	2,873,981,929
Net Investment Position - June 30, 2019	$ 1,848,399,822	$ 887,842,706	$ 367,234,733	$ 3,103,477,261

Notes to Financial Statements

Note 1. Description of Funds and Significant Accounting Policies

Description of Funds

The Daily Valued Funds (DVF) of Washington State consist 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	14.3%	99.8%	N/A
Judicial Retirement Account	Trace	0.2%	N/A
Washington State Retirement System Defined Contribution Participants	22.9%	N/A	N/A
Developmental Disabilities Endowment Trust Fund	0.5%	N/A	N/A
Guaranteed Education Tuition Program	28.8%	N/A	N/A
Washington State Opportunity Scholarship Fund	3.0%	N/A	N/A
Alliance Bernstein Retirement Strategy Funds	30.5%	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 to the basic financial statements found in Note 5.

Valuation of Investments

All investments are reported at fair value, with the exception of 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, 2019, 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 securities in 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, 2019. 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, 2019, 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 that 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, 2019.

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 existed at June 30, 2019, 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, 2019, was approximately $5.2 million. The securities on loan remain in the Statement of Net Investment Position in their respective categories. At June 30, 2019, cash collateral received, totaling $5.3 million was reported as a securities lending obligation and the fair value of the reinvested cash collateral, totaling $5.3 million, was 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, 2019, there were no securities received as collateral. Total collateral held was $5.3 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, 2019.

In Millions:	Total Collateral
Repurchase Agreements	$ 1.8
Yankee CD	1.2
Commercial Paper	1.4
Cash Equivalents and Other	0.9
Total Collateral Held	**$ 5.3**

During Fiscal Year 2019, securities lending transactions could be terminated on demand by either the DVF or the borrower. As of June 30, 2019, the cash collateral held had an average duration of 17.8 days and an average weighted final maturity of 98.3 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 2019, 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 2019 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. 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, 2019:

	Fair Value	Fair Value Measurements Using: Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
INVESTMENTS				
DEBT SECURITIES				
Corporate Bonds	$ 1,586,008,963	$ -	$ 1,586,008,963	$ -
U.S. and Foreign Government and Agency Securities	593,719,280	-	593,719,280	-
Total Debt Securities	2,179,728,243	-	2,179,728,243	-
Total Investments Measured at Fair Value	$ 2,179,728,243			
OTHER ASSETS (LIABILITIES) AT FAIR VALUE				
Collateral Held Under Securities Lending Agreements	$ 5,315,324	$ -	$ 5,315,324	$ -
Obligations Under Securities Lending Agreements	(5,315,324)	-	(5,315,324)	-
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 the following: 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.

DAILY VALUED FUNDS

Schedule 1: Schedule of Maturities and Credit Ratings

Investment Type	Total Fair Value	Maturity: Less than 1 year	Maturity: 1-5 years	Maturity: 6-10 years	Maturity: More than 10 years	Effective Duration *	Credit Rating
Corporate Bonds	$ 1,586,008,963	$ 159,979,814	$ 917,002,137	$ 498,761,439	$ 10,265,573	4.3	Schedule 2
U.S. Government and Agency Securities	400,732,163	-	168,952,723	180,151,519	51,627,921	8.1	Aaa
Guaranteed Insurance Contracts	796,286,832	83,835,119	712,451,713	-	-	N/A	Not Rated
Foreign Government and Agencies	192,987,117	-	112,310,789	80,676,328	-	4.8	Schedule 2
	2,976,015,075	$ 243,814,933	$ 1,910,717,362	$ 759,589,286	$ 61,893,494		

Investments Not Required to be Categorized	
Cash and Cash Equivalents	127,961,579
Total Investments Not Categorized	127,961,579
Total Investments	$ 3,103,976,654

* Excludes cash and cash equivalents

Schedule 2: Additional Credit Rating Disclosures

Moody's Equivalent Credit Rating	Corporate Bonds	Foreign Government and Agency Securities
Aaa	$ 57,214,210	$ 20,107,071
Aa1	14,948,914	9,982,340
Aa2	55,924,190	19,806,792
Aa3	121,865,977	30,455,659
A1	234,098,367	76,670,075
A2	227,172,360	-
A3	204,901,236	-
Baa1	241,964,360	20,440,100
Baa2	199,089,885	15,525,080
Baa3	210,215,578	-
Ba1 or Lower	18,613,886	-
Total	$ 1,586,008,963	$ 192,987,117

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, 2019, 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 25, 2019.

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 25, 2019

Washington State Investment Board

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