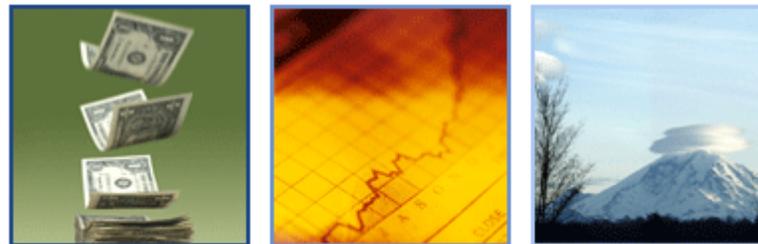


## **LEOFF Board**



**Gary Bruebaker**  
**Chief Investment Officer**  
**August 22, 2007**

## Overview



- ◆ **Mission**
- ◆ **Fiduciary Duty**
- ◆ **Organizational Structure**
- ◆ **Investment Responsibility**
- ◆ **Capital Markets**
- ◆ **Assets Under Management**
- ◆ **Commingled Trust Fund**
- ◆ **Performance**
- ◆ **Future Challenges**
- ◆ **Summary**

## Our Mission



**Invest with integrity, prudence, and skill to meet or exceed the financial objectives of those we serve.**

## Fiduciary Duty



**“The Board shall establish investment policies and procedures designed exclusively to maximize return at a prudent level of risk.” (RCW 43.33A.110)**

**“The State Investment Board shall 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.” (RCW 43.33A.140)**

**“The Board shall consider investments not in isolation, but in the context of the investment of the particular fund as a whole and as part of an overall investment strategy, which should incorporate risk and return objectives reasonably suited for that fund.” (RCW 43.33A.140)**

## Organizational Structure



- ◆ **Board comprised of 15 members**
  - Ten voting
  - Five non-voting
  
- ◆ **65 staff**
  
- ◆ **120 investment managers under contract**

## Board Members

Name	Position	Appointment Authority
<b>10 Voting Members</b>		
Michael J. Murphy	State Treasurer	Ex-Officio
Sandra J. Matheson	Director, DRS	Ex-Officio
Judy Schurke	Director, Labor & Industries	Ex-Officio
Mason Petit	Active Member, PERS	Governor
George Masten	Retired Member, PERS	Governor
Patrick McElligott, Chair	Active Member, LEOFF	Governor
David Scott	Active Member, TRS	Superintendent of Public Instruction (SPI)
Glenn Gorton, Vice Chair	Active Member, SERS	SPI
Helen Sommers	State Representative	House Speaker
Lisa Brown	State Senator	Senate President
<b>5 Non-voting Members</b>		
Charles Kaminski	All investment professionals appointed by voting members.	
John Magnuson		
Robert S. Nakahara		
Jeff Seely		
David Nierenberg		

## Investment Responsibility

### Retirement Funds

- ◆ **Public Employees' Retirement System (PERS) Plan 1, 2, 3 \***
- ◆ **School Employees' Retirement System (SERS) Plan 2, 3 \***
- ◆ **Teachers' Retirement System (TRS) Plan 1, 2, 3 \***
- ◆ **Law Enforcement Officers' and Firefighters' (LEOFF) Plan 1, 2**
- ◆ **Judicial Retirement Account (JRA) – Defined Benefit**
- ◆ **Judicial Retirement Account (JRA) – Defined Contribution**
- ◆ **Washington State Patrol Retirement System (WSP) Plan 1, 2**
- ◆ **Volunteer Firefighters' Relief and Pension Fund (VFF)**
- ◆ **Deferred Compensation Program (DCP)**
- ◆ **PSERS 2**

### Industrial Insurance (Labor and Industries) Funds

- ◆ **Accident Fund**
- ◆ **Medical Aid Fund**
- ◆ **Pension Reserve Fund**
- ◆ **Supplemental Pension Fund**

\* All Plan 1s are closed to new participants. The Plan 3s are hybrid plans with both defined benefit and defined contribution assets.

## Investment Responsibility

### Permanent Funds

- ◆ **Agricultural College Permanent Fund**
- ◆ **Common School Permanent Fund**
- ◆ **Normal School Permanent Fund**
- ◆ **Scientific Permanent Fund**
- ◆ **State University Permanent Fund**
- ◆ **Millersylvania Park Trust Fund**
- ◆ **American Indian Endowed Scholarship Fund (July)**
- ◆ **Foster Care Endowed Scholarship Fund (July)**

### Other Trusts

- ◆ **Guaranteed Education Tuition Program (GET)**
- ◆ **Developmental Disabilities Endowment Trust Fund (DDEF)**
- ◆ **Game and Special Wildlife Fund**
- ◆ **State Employees' Insurance Reserve Fund**
- ◆ **Radiation Perpetual Fund**
- ◆ **Reclamation Revolving Fund**
- ◆ **Emergency Reserve Fund**
- ◆ **Pension Stabilization Fund**
- ◆ **Basic Health Plan Self Insurance Reserve Account**
- ◆ **Family and Medical Leave Insurance Fund**

# Capital Markets

## The Callan Periodic Table of Investment Returns Annual Returns for Key Indices (1987-2006)

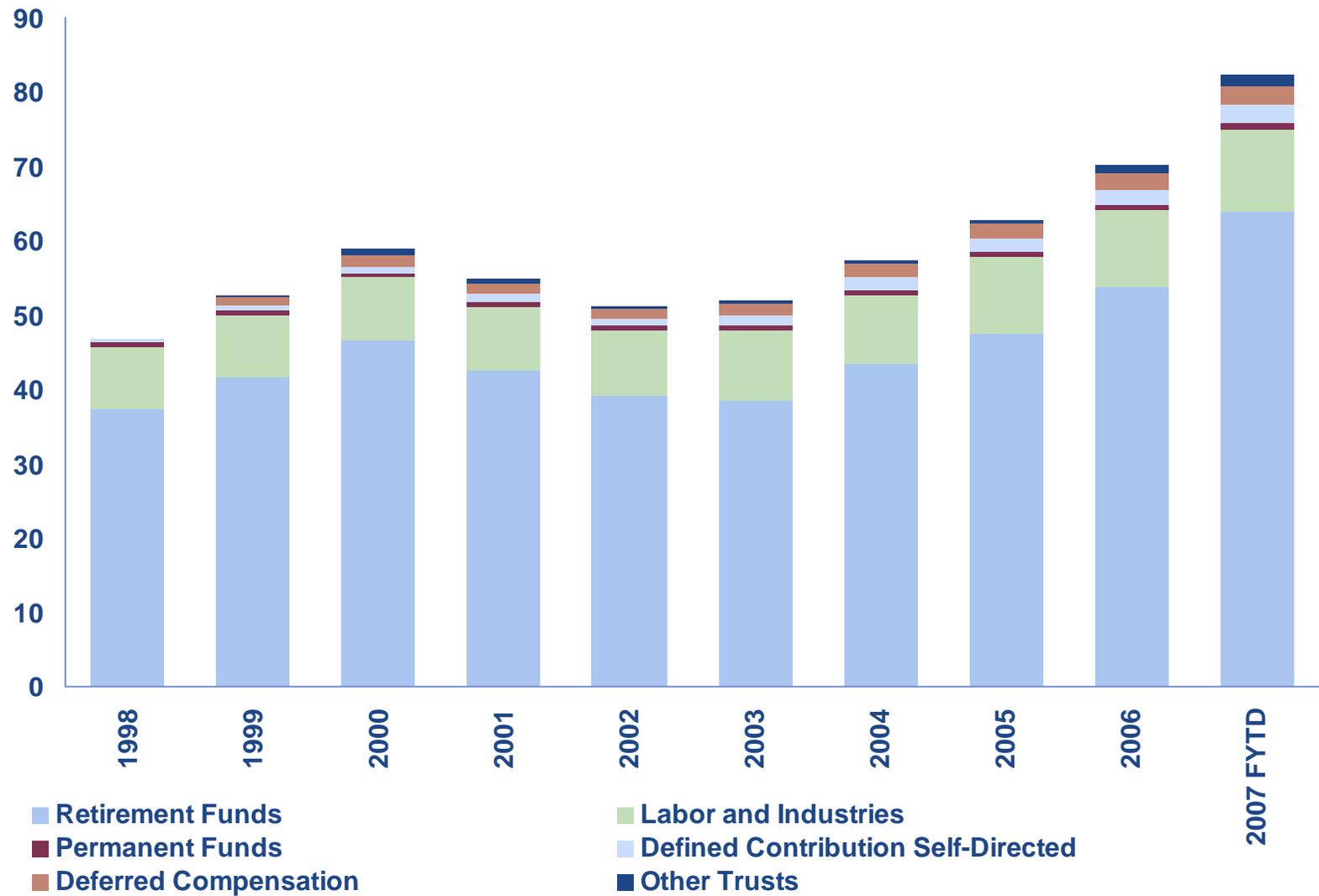
Ranked in order of performance (Best to Worst)

*Ranked in order of performance (Best to Worst)*

1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
MSCI EAFE 24.64%	Russell 2000 Value 29.47%	S&P/ Citi 500 Growth 36.40%	LB Agg 8.96%	Russell 2000 Growth 51.19%	Russell 2000 Value 29.14%	MSCI EAFE 32.57%	MSCI EAFE 7.78%	S&P/ Citi 500 Growth 38.13%	S&P/ Citi 500 Growth 23.97%	S&P/ Citi 500 Growth 36.52%	S&P/ Citi 500 Growth 42.16%	Russell 2000 Growth 43.09%	Russell 2000 Value 22.83%	Russell 2000 Value 14.02%	LB Agg 10.26%	Russell 2000 Growth 48.54%	Russell 2000 Value 22.25%	MSCI EAFE 13.54%	MSCI EAFE 26.34%
S&P/ Citi 500 Growth 6.50%	MSCI EAFE 28.26%	S&P 500 Index 31.69%	S&P/ Citi 500 Growth 0.20%	Russell 2000 46.04%	Russell 2000 18.41%	Russell 2000 Value 23.77%	S&P/ Citi 500 Growth 3.13%	S&P 500 Index 37.58%	S&P 500 Index 22.96%	S&P 500 Index 33.36%	S&P 500 Index 28.58%	S&P/ Citi 500 Growth 28.24%	LB Agg 11.63%	LB Agg 8.43%	Russell 2000 Value -11.43%	Russell 2000 47.25%	MSCI EAFE 20.25%	S&P/ Citi 500 Value 5.82%	Russell 2000 Value 23.48%
S&P 500 Index 5.25%	Russell 2000 25.02%	S&P/ Citi 500 Value 26.13%	S&P 500 Index -3.11%	Russell 2000 Value 41.70%	S&P/ Citi 500 Value 10.52%	Russell 2000 18.88%	S&P 500 Index 1.32%	S&P/ Citi 500 Value 36.99%	S&P/ Citi 500 Value 22.00%	Russell 2000 Value 31.78%	MSCI EAFE 20.00%	MSCI EAFE 26.96%	S&P/ Citi 500 Value 6.08%	Russell 2000 2.49%	MSCI EAFE -15.94%	Russell 2000 Value 46.03%	Russell 2000 18.33%	S&P 500 Index 4.91%	S&P/ Citi 500 Value 20.81%
S&P/ Citi 500 Value 3.68%	S&P/ Citi 500 Value 21.67%	Russell 2000 Growth 20.17%	S&P/ Citi 500 Value -6.85%	S&P/ Citi 500 Growth 38.37%	Russell 2000 Growth 7.77%	S&P/ Citi 500 Value 18.61%	S&P/ Citi 500 Value -0.64%	Russell 2000 Growth 31.04%	Russell 2000 Value 21.37%	S&P/ Citi 500 Value 29.98%	S&P/ Citi 500 Value 14.69%	Russell 2000 21.26%	Russell 2000 -3.02%	Russell 2000 Growth -9.23%	Russell 2000 -20.48%	MSCI EAFE 38.59%	S&P/ Citi 500 Value 15.71%	Russell 2000 Value 4.71%	Russell 2000 18.37%
LB Agg 2.75%	Russell 2000 Growth 20.37%	Russell 2000 16.26%	Russell 2000 Growth -17.41%	S&P 500 Index 30.47%	S&P 500 Index 7.62%	Russell 2000 Growth 13.37%	Russell 2000 Value -1.54%	Russell 2000 28.45%	Russell 2000 16.49%	Russell 2000 22.36%	LB Agg 8.70%	S&P 500 Index 21.04%	S&P 500 Index -9.11%	S&P/ Citi 500 Value -11.71%	S&P/ Citi 500 Value -20.85%	S&P/ Citi 500 Value 31.79%	Russell 2000 Growth 14.31%	Russell 2000 4.55%	S&P 500 Index 15.79%
Russell 2000 Value -7.11%	S&P 500 Index 16.61%	LB Agg 14.53%	Russell 2000 -19.48%	S&P/ Citi 500 Value 22.56%	LB Agg 7.40%	S&P 500 Index 10.08%	Russell 2000 -1.82%	Russell 2000 Value 25.75%	Russell 2000 Growth 11.26%	Russell 2000 Growth 12.95%	Russell 2000 Growth 1.23%	S&P/ Citi 500 Value 12.73%	MSCI EAFE -14.17%	S&P 500 Index -11.89%	S&P 500 Index -22.10%	S&P 500 Index 28.68%	S&P 500 Index 10.88%	Russell 2000 Growth 4.15%	Russell 2000 Growth 13.35%
Russell 2000 -8.80%	S&P/ Citi 500 Growth 11.95%	Russell 2000 Value 12.43%	Russell 2000 Value -21.77%	LB Agg 16.00%	S&P/ Citi 500 Growth 5.06%	LB Agg 9.75%	Russell 2000 Growth -2.43%	LB Agg 18.46%	MSCI EAFE 6.05%	LB Agg 9.64%	Russell 2000 -2.55%	LB Agg -0.82%	S&P/ Citi 500 Growth -22.08%	S&P/ Citi 500 Growth -12.73%	S&P/ Citi 500 Growth -23.59%	S&P/ Citi 500 Growth 25.66%	S&P/ Citi 500 Growth 6.13%	S&P/ Citi 500 Growth 4.00%	S&P/ Citi 500 Growth 11.01%
Russell 2000 Growth -10.48%	LB Agg 7.89%	MSCI EAFE 10.53%	MSCI EAFE -23.45%	MSCI EAFE 12.14%	MSCI EAFE -12.18%	S&P/ Citi 500 Growth 1.68%	LB Agg -2.92%	MSCI EAFE 11.21%	LB Agg 3.64%	MSCI EAFE 1.78%	Russell 2000 Value -6.45%	Russell 2000 Value -1.49%	Russell 2000 Growth -22.43%	MSCI EAFE -21.44%	Russell 2000 Growth -30.26%	LB Agg 4.10%	LB Agg 4.34%	LB Agg 2.43%	LB Agg 4.33%

## Assets Under Management (Past 10 Fiscal Years)

*Fiscal Year ended June 30, FYTD as of June 30, 2007*



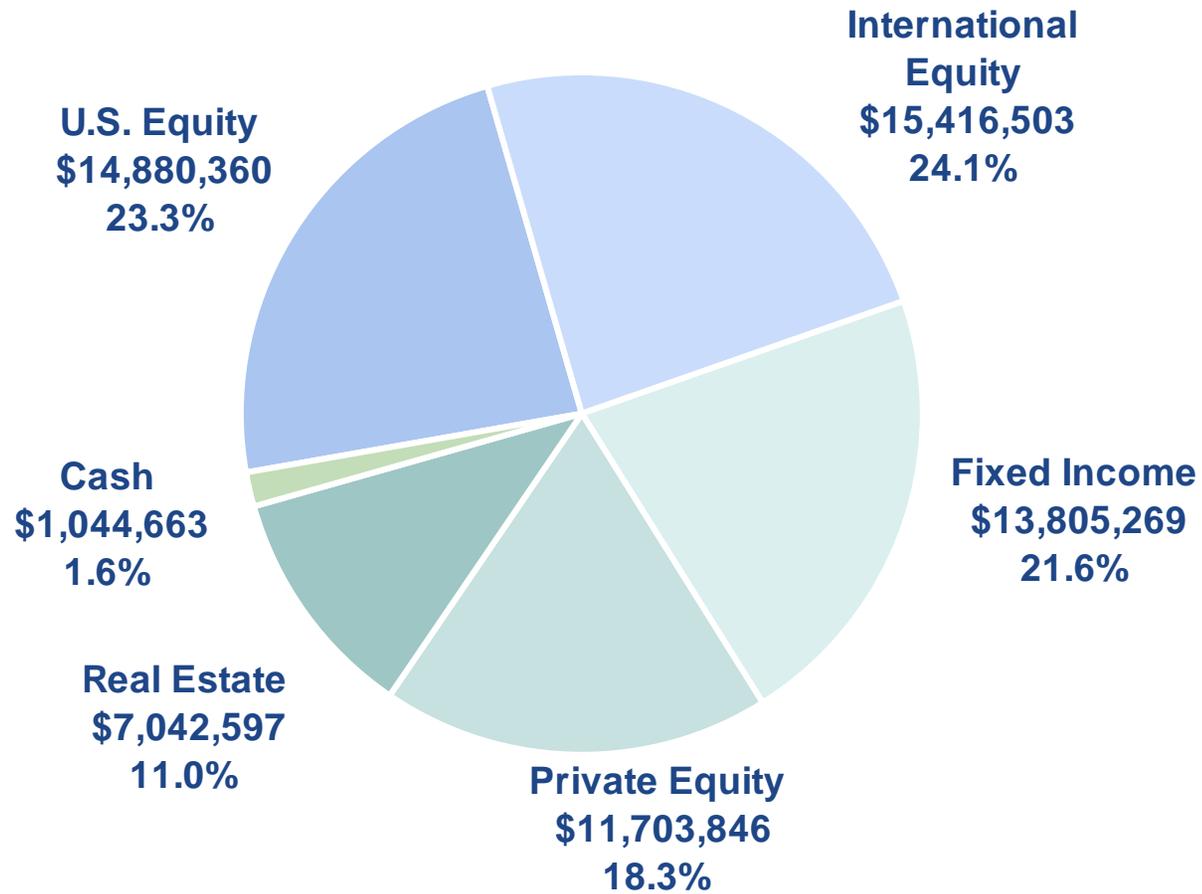
## Commingled Trust Fund Assets Under Management

*Fiscal Year ended June 30, FYTD as of June 30, 2007*



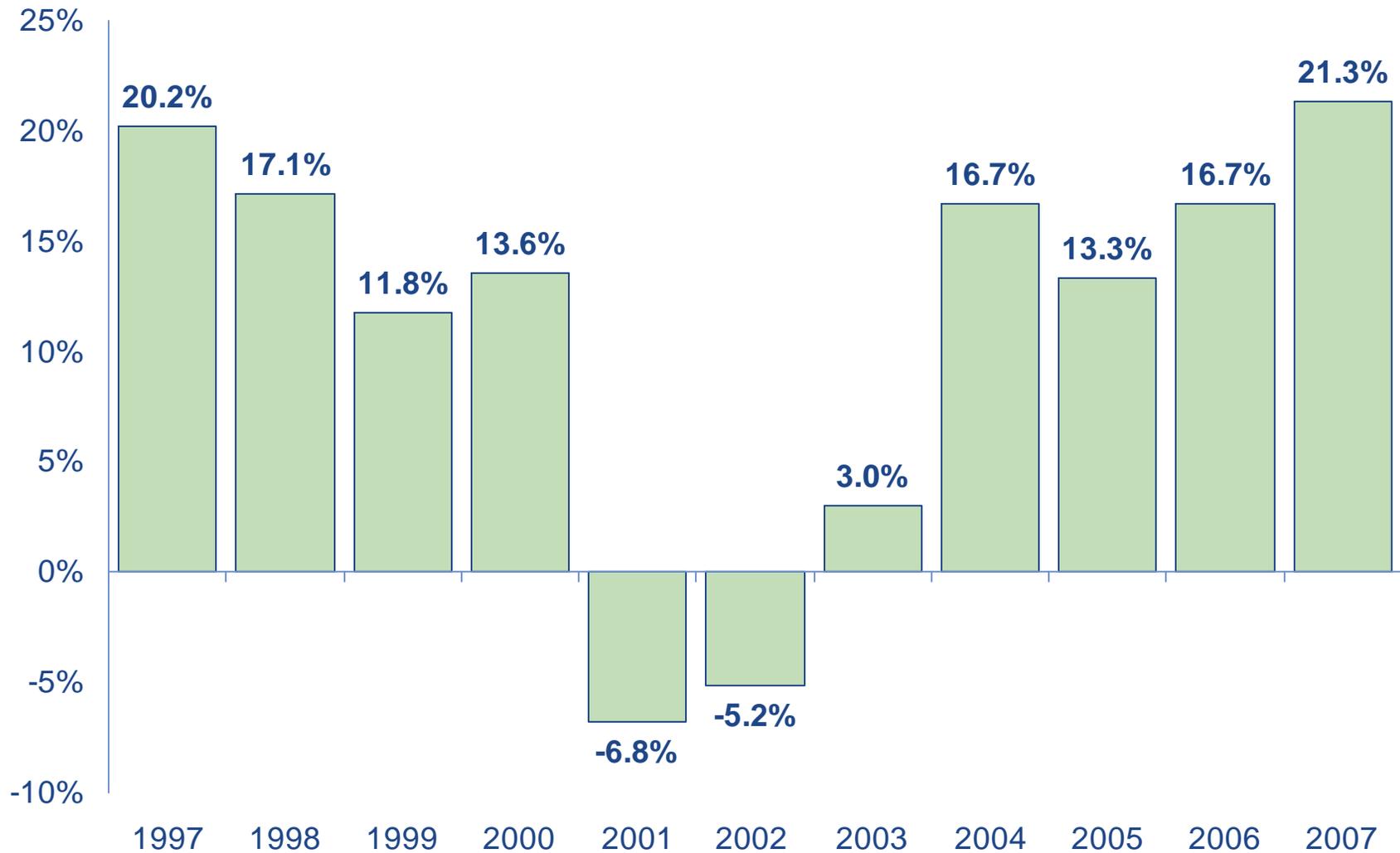
## CTF Market Value (\$000s) and Asset Allocation

June 30, 2007



## CTF Annual Returns

*Fiscal Year ended June 30, FYTD as of June 30, 2007*



## CTF Market Value and Net Performance

*June 30, 2007*

	1 Year	3 Year	5 Year	10 Year
<b>Total Fund \$60.8 billion</b>	<b>21.33 %</b>	<b>16.97 %</b>	<b>13.99 %</b>	<b>9.73 %</b>
Passive Benchmark	19.03	13.04	11.91	7.83
Implementation Value Added Benchmark	18.05	14.06	12.22	N/A
TUCS Public Fund >\$1B Median	17.63	12.78	11.41	8.09
TUCS Public/Corporate Fund >\$1B Median	17.62	12.75	11.51	8.29

## Future Challenges



- ◆ **Managing investment return expectations**
- ◆ **Meeting the 8 percent assumed rate of return in tough environment.**
- ◆ **Pressure to use pension fund money to influence social and political change.**
- ◆ **Need for enhanced risk management across entire portfolio to deal with increasing complexity of investment program.**

## Summary



- ◆ **Manage \$82 billion within 40 funds**
- ◆ **Long-term investor with a proven record of success**
- ◆ **Disciplined approach to investment with the highest standards of integrity**
- ◆ **Dedicated to working for the best interests of our beneficiaries**
- ◆ **Dedicated to continuous improvement**