



**Washington State
Investment Board**

WSIB Overview for the LEOFF Board



**Theresa Whitmarsh,
Acting Executive Director
July 22, 2009**



Overview



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Our Mission



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



Summary



- Manage \$61.3 billion within 39 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



Organizational Structure



- Board comprised of 15 members
 - 10 voting
 - 5 non-voting

- 73 staff

- Approximately 120 investment managers under contract

	Appointment Authority	Name	Position
10 Voting	Ex-Officio	Jim McIntire	State Treasurer
		Steve Hill	Director, DRS
		Judy Schurke	Director, Labor & Industries
	Senate President	Lisa Brown	State Senator
	House Speaker	Sharon Tomiko Santos	State Representative
	Governor	Mason Petit	Active Member, PERS
		George Masten	Retired Member, PERS
Superintendent of Public Instruction	Patrick McElligott, Vice Chair	Active Member, LEOFF	
	Glenn Gorton, Chair	Active Member, SERS	
5 Non-voting	Selected by the Board	Mike Ragan	Active Member, TRS
		Charles Kaminski	
		John Magnuson	
		Robert Nakahara	
		Jeffrey Seely	
		David Nierenberg	



WSIB Investment Responsibility

Retirement Funds

- ❑ Public Employees' Plans 1, 2, 3 *
- ❑ School Employees' Plans 2, 3 *
- ❑ Teachers' Plans 1, 2, 3 *
- ❑ Law Enforcement Officers' and Firefighters' Plans 1, 2
- ❑ Judicial Retirement Account – Defined Benefit
- ❑ Judicial Retirement Account – Defined Contribution
- ❑ Washington State Patrol Plans 1, 2
- ❑ Volunteer Firefighters' Relief and Pension Fund
- ❑ Deferred Compensation Program
- ❑ Public Service Employees' Plan 2

Labor and Industries' Funds

- ❑ Accident
- ❑ Medical Aid
- ❑ Pension Reserve
- ❑ Supplemental Pension

Permanent Funds

- ❑ Agricultural College
- ❑ Common School
- ❑ Normal School
- ❑ Scientific
- ❑ State University
- ❑ Millersylvania Park Trust
- ❑ American Indian Endowed Scholarship
- ❑ Foster Care Endowed Scholarship

Other Trusts

- ❑ Guaranteed Education Tuition
- ❑ Developmental Disabilities Endowment
- ❑ Game and Special Wildlife
- ❑ State Employees' Insurance Reserve
- ❑ Radiation Perpetual
- ❑ Reclamation Revolving
- ❑ Pension Stabilization
- ❑ Basic Health Plan Self Insurance Reserve
- ❑ Budget Stabilization

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

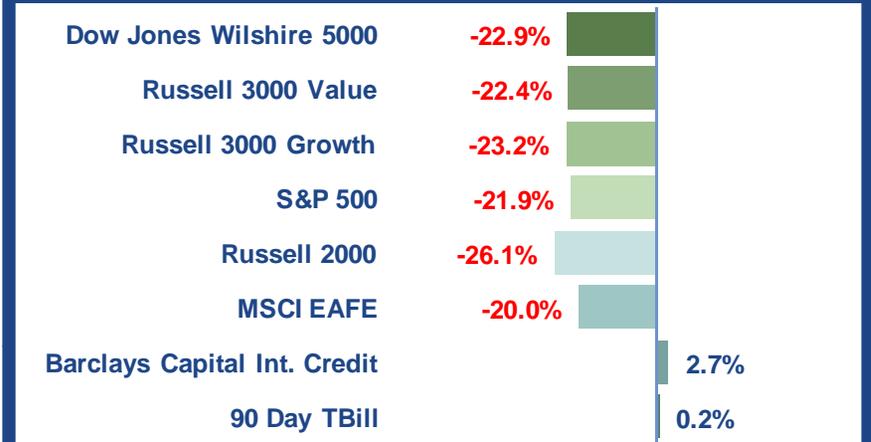


Capital Markets Quarter Comparison of the Last Year

Quarter – September 30, 2008



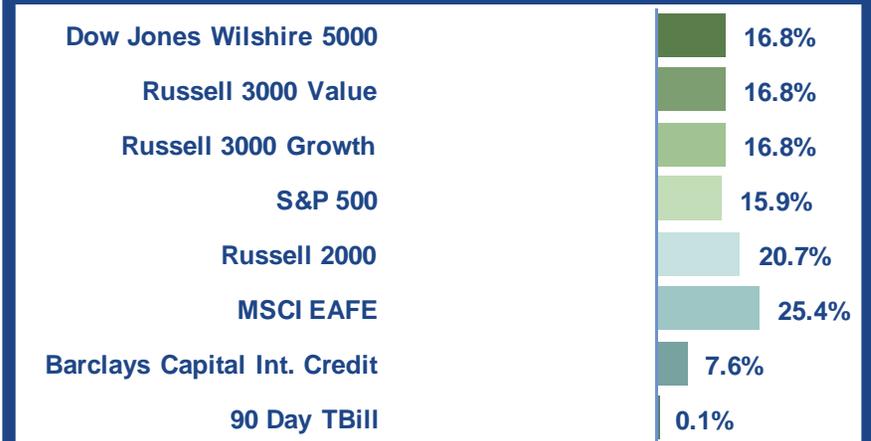
Quarter – December 31, 2008



Quarter – March 31, 2009



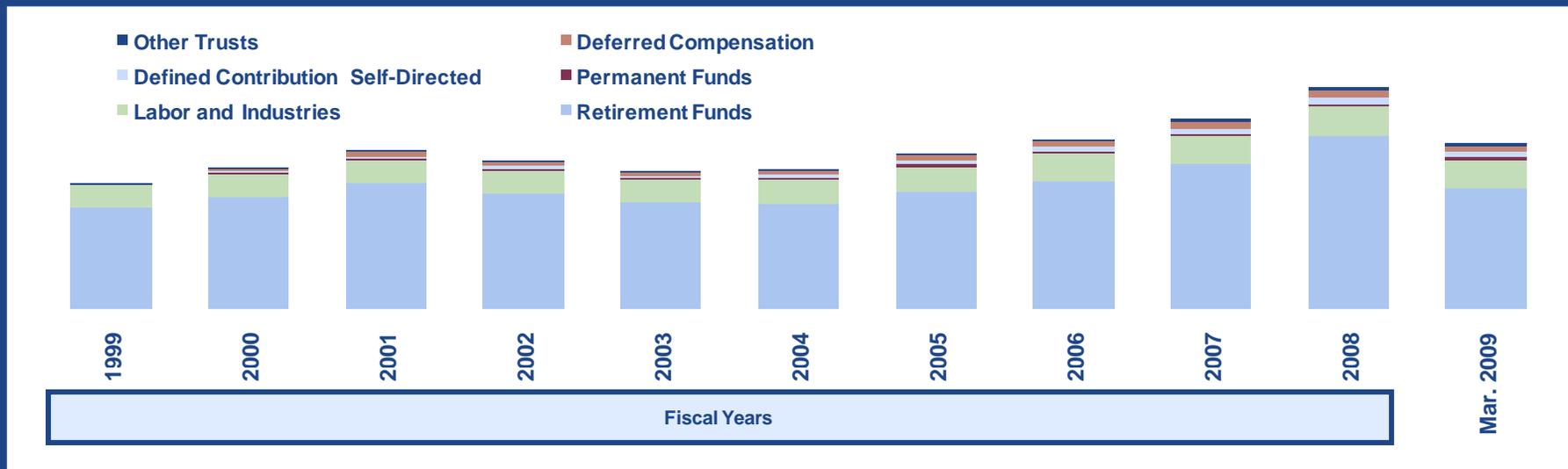
Quarter – June 30, 2009





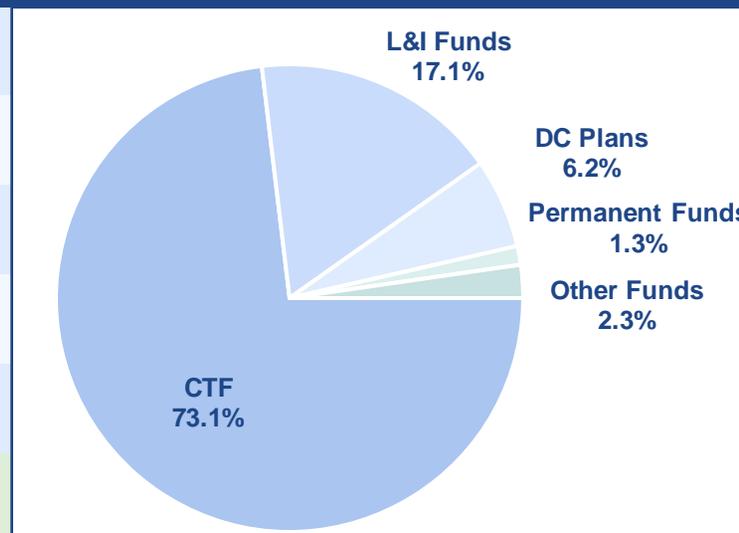
Total Assets Under Management – March 31, 2009

Past 10 Fiscal Years



Market Values and Allocation (in billions)

CTF	\$44.8	73.1%
L&I Funds	\$10.5	17.1%
DC Plans	\$3.8	6.2%
Permanent Funds	\$0.8	1.3%
Other Funds	\$1.4	2.3%
Total Assets Under Management	\$61.3	



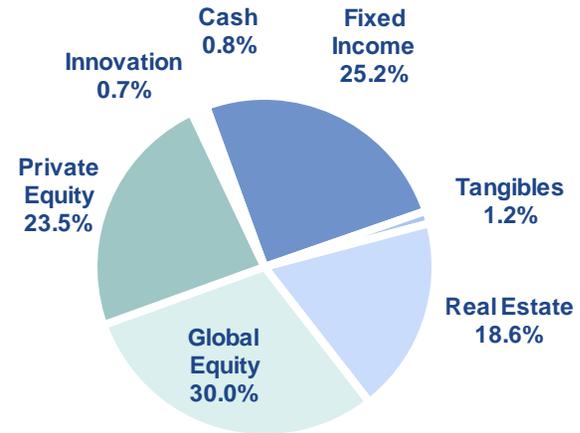


Commingled Trust Fund Performance and Market Values – March 31, 2009

Historical Fund Returns



Actual Allocation



Since Inception Return of CTF

Total CTF Since Inception: 7.61%

Market Values and Returns

Total Commingled Trust Fund (CTF) Retirement Assets: \$44.8 billion

	Market Value (000s)	1 Year	3 Year	5 Year	10 Year
Total CTF	\$44,845,356,167	-28.13%	-4.17%	2.99%	3.87%
Fixed Income	\$11,317,870,417	-0.20%	5.00%	3.96%	5.89%
Tangibles	\$537,794,175	-3.90%	N/A	N/A	N/A
Real Estate	\$8,344,714,509	-20.24%	5.56%	12.21%	11.85%
Global Equity	\$13,453,660,438	-43.38%	-13.90%	-3.29%	-0.90%
Private Equity	\$10,533,007,740	-30.37%	-0.16%	11.47%	9.36%
Innovation	\$320,928,919	-43.92%	N/A	N/A	N/A
Cash	\$310,921,233	1.92%	3.93%	3.33%	2.85%



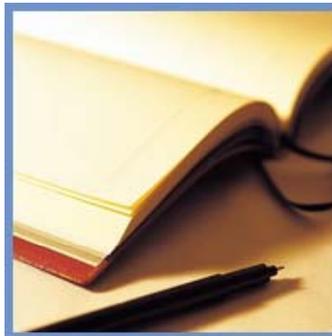
Challenges



- ❑ **Managing investment return expectations**
- ❑ **As investors of long term assets need to keep an appropriate time horizon**
- ❑ **Meeting the 8% assumed rate of return in tough environment**
 - ❑ **Requires increased resources and capacity to position WSIB to manage complex investment program**
- ❑ **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**

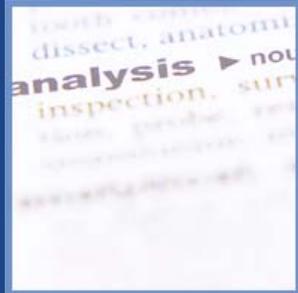


WSIB Investment Principles





Asset Allocation



A broadly diversified portfolio offers higher expected returns while also assuring benefit security over the long-term.

Capital market history has demonstrated that over long periods of time, a well managed, diversified portfolio that includes public and private equities has outperformed a fixed income portfolio. Accordingly, it is reasonable to expect that a diversified portfolio will, over the long-term, assure the security of benefits with lower contributions.



Asset Allocation



That is why at the WSIB:

- ❑ The Fund's investments are not limited to fixed income, but also include public equity, real estate, and private equity.
- ❑ We construct portfolios with diversification both across asset classes and within asset classes.
- ❑ The Board and the staff devote considerable time to developing and periodically reviewing the asset allocation policy of the Fund.
- ❑ Staff monitors and manages asset allocations daily.



Active Management



While skilled private equity and real estate partners demonstrate persistence in performance, even they will inevitably have less successful funds; therefore, there is a need for diversification among general partners.



Active Management



That is why at the WSIB:

- ❑ Portfolio construction and diversification are critical elements of private markets investing.
- ❑ Staff and the Board invest a lot of time on annual plans and pacing models to allocate funds to partners in the most efficient and effective manner.
- ❑ When we evaluate investment opportunities within private markets, we evaluate more than just the performance of a single investment or even a single fund.



Active Management



All good investment opportunities attract investment capital and so do many poor investment opportunities.

That is why at the WSIB:

- ▣ We devote significant effort and resources to procurement practices, due diligence activities, manager selection methods, monitoring activities, and exploration of new and emerging asset classes and segments.



Performance Measurement

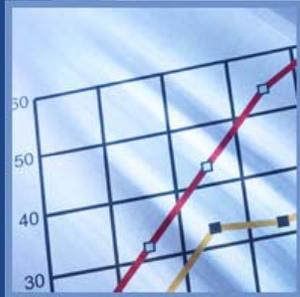


The primary performance measure for the total Fund is performance relative to the Fund's passive policy benchmark.

Secondary measures, which are particularly useful to some stakeholders, include appropriate peer comparisons (though caution needs to be exercised).



Performance Measurement

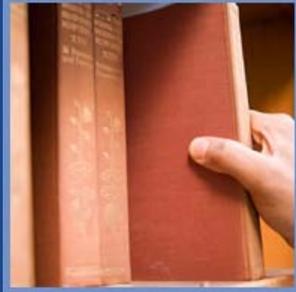


That is why at the WSIB:

- ▣ We regularly measure and compare the Fund's investment performance relative to our passive policy benchmark.
- ▣ We periodically measure and compare the Fund's investment performance relative to peer comparisons.



Performance Measurement



Expenses of the Fund are assets of the trust and, therefore, should be carefully measured and managed.

As fiduciaries, the staff has a duty in law to protect the assets of the trust and to ensure all expenditures from the trust are reasonable and appropriate.



Performance Measurement

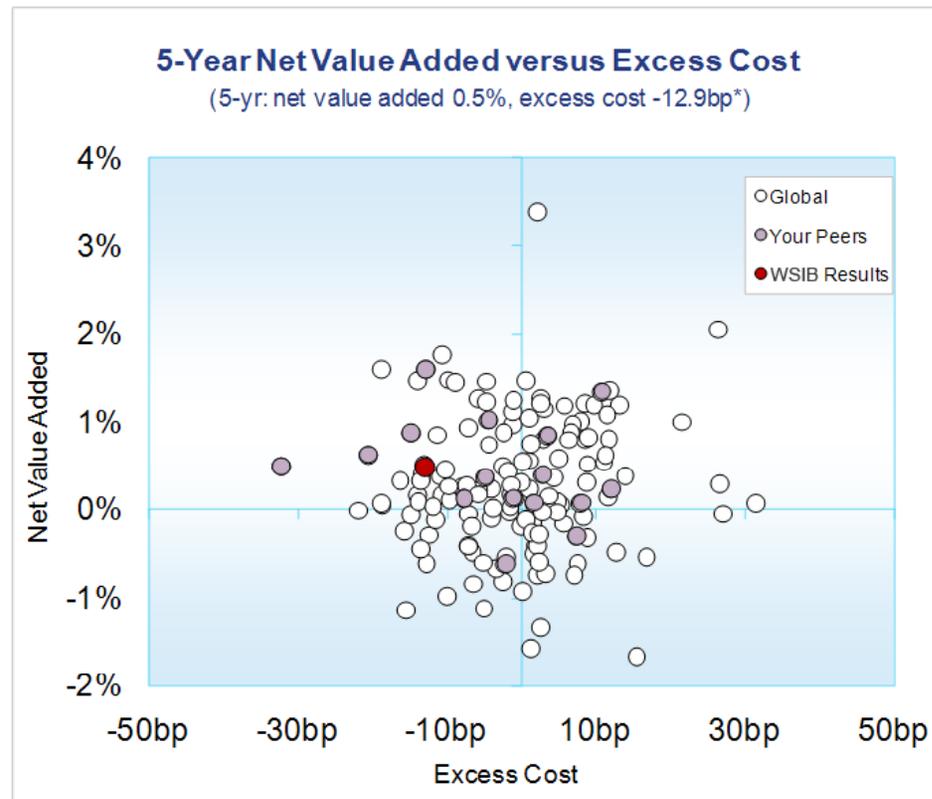


That is why at the WSIB:

- ▣ We regularly monitor and closely manage the costs for WSIB programs.
- ▣ We review annually all WSIB expenses against industry averages for all areas and always seek to be a low cost/high quality producer.

Results – 5-year performance placed WSIB in the positive value added, low cost quadrant

Source: CEM Benchmarking, Inc.





Organizational Core Competencies



The WSIB must fulfill the mission of the Fund in a manner consistent with the highest fiduciary standards. In keeping with this belief, we abide by the following principles:

- ▣ Integrity is not negotiable; and
- ▣ Prudence is best demonstrated by a well documented and sound process.



Organizational Core Competencies



That is why at the WSIB:

- ▣ We undergo annual ethics training.
- ▣ We have well established and documented due diligence procedures.
- ▣ We use third party advisors and experts as necessary to support prudent decision-making.
- ▣ We invest in governance training.



Organizational Core Competencies



The success of the investment program and the fulfillment of our mission does not depend on a single competency, but rather requires multiple competencies:

- ▣ Clear, rational, and strongly held investment beliefs;
- ▣ Excellence in board governance;
- ▣ Highly skilled staff;
- ▣ Alignment of investment policies and practices with investment beliefs;
- ▣ Operational excellence and continuous improvement; and
- ▣ Effective utilization of best-in-class managers, investment partners, and advisors.



Organizational Core Competencies



That is why at the WSIB:

- ▣ We invest considerable resources in Board education, human resource development and management, the development of investment policy, and due diligence with respect to managers, partners, and advisors.



Contact Information

Web Site: <http://www.sib.wa.gov>

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Phone Number: (360) 956-4600

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Washington State Investment Board
Investing with integrity, prudence, & skill

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