

Washington State Investment Board

WSIB Update for the LEOFF Board



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Executive Director
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Overview



- ▣ Mission
- ▣ Total Assets Under Management
- ▣ Commingled Trust Fund (CTF) Performance and Market Values
- ▣ Governance Structure, Integrity, Transparency
- ▣ Future Challenges

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Our Mission



The WSIB invests with integrity, prudence, and skill to meet or exceed the financial objectives of those we serve including members and beneficiaries of:

- ▣ 17 retirement plans for public employees, teachers, school employees, law enforcement offices, firefighters and judges
- ▣ Several other important public funds that help support Washington's industrial insurance program, colleges and universities, and developmental disability programs

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Complexity is the Reality of the 21st Century

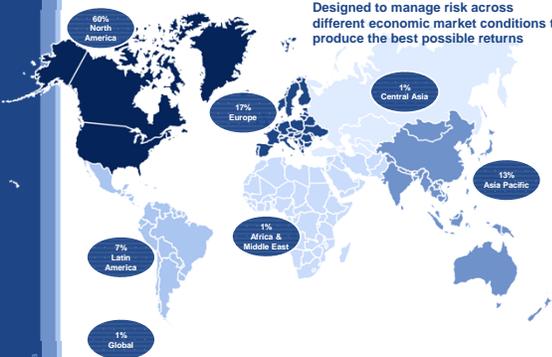


We manage investments in:

- ❑ 33 different funds
- ❑ 74 different countries
- ❑ Across 6 continents
 - ❑ 49 currencies
 - ❑ Over 12,000 investment holdings

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CTF Geographic Diversification
September 30, 2012



Designed to manage risk across different economic market conditions to produce the best possible returns

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Challenges of Running a Global Portfolio



- ❑ Marketplace more complex with constant financial product innovation
- ❑ Competition much stiffer for partners, deals, and staff due to rise of sovereign wealth funds, new and rapidly growing pension funds, and family wealth offices in emerging markets
- ❑ Unpredictable geopolitical events have greater influence over investment returns
- ❑ Round-the-clock media coverage creates greater political and reputation risk challenges

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Essentials for Success



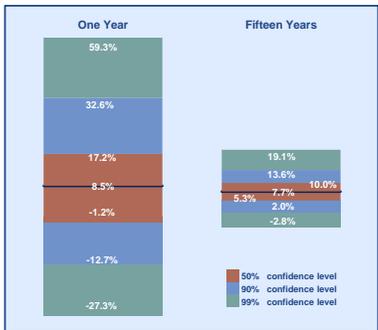
Success is dependent on:

- People
 - Skilled staff, who can research, identify and execute successful investment strategies across far flung geographies
 - Sophisticated investment partners, consultants, and service providers with keen knowledge of local market conditions
 - Dedicated and competent Board
- Resources
 - Adequate budget for staff, research, technology, global travel
 - Appropriation and spending flexibility
- Reputation
 - Attracting skilled staff, access to good partners, willingness to serve on the Board and support for adequate resources is all dependent on the WSIB's reputation

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Performance Challenges: Return Expectations Coming Down

CTF Range of Return Expectations Using 2012 Capital Market Assumptions

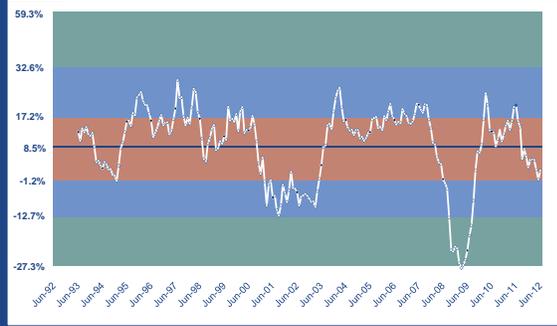


Confidence Level	One Year	Fifteen Years
99%	59.3%	19.1%
90%	32.6%	13.6%
50%	17.2%	7.7%
50%	8.5%	10.0%
90%	-1.2%	5.3%
99%	-12.7%	2.0%
99%	-27.3%	-2.8%

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Volatility Will Continue to Be With Us

CTF Rolling One-Year Returns Since Inception



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Despite Challenges – WSIB Still Performing Well



8.49% – CTF rate of return since inception (1992) – The WSIB's long-term investment strategy has helped make Washington's public pension system one of the four best funded in the nation

Roughly, 84 cents of every dollar needed to pay benefits is generated by our investment returns

All expenses of the WSIB are funded from the earnings of the funds managed by the WSIB at no cost to state taxpayers

International benchmarking studies have consistently ranked the WSIB in the top number of low cost and high performing institutional investors

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Reason for Success



WSIB past success has been the result of being:

- ▣ Ahead of the market
 - ▣ Alternatives
 - ▣ Global
- ▣ Willing to be different
 - ▣ Real estate operating company (REOC) strategy
 - ▣ Fixed Income – not benchmark driven
- ▣ Disciplined
 - ▣ Walk away from strategies that don't fit
 - ▣ Stayed with asset allocation while others de-risked

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Conclusion



Being a good investment manager is like walking up a down escalator...if you aren't moving forward, you are losing ground

- ▣ Managing investment return expectations
- ▣ Consistently meeting the assumed rate of return
- ▣ Maintaining independence to fulfill fiduciary responsibilities
- ▣ Building and securing support to ensure satisfactory results and success well into the future

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