



**Washington State
Investment Board**

Washington State Investment Board Update



**Theresa Whitmarsh, Executive Director
Washington State Investment Board
September 21, 2016**



Who We Are – At a Glance



The Washington State Investment Board (WSIB) is one of the largest and most diversified institutional investment managers in the United States.

- ▣ **\$108.5 billion assets under management as of June 30, 2016**
- ▣ **17 pension funds**
- ▣ **5 Labor and Industries insurance funds**
- ▣ **13 Permanent and other trust funds**

The WSIB invests globally and employs both internal/external managers, along with both active and passive strategies:

- ▣ **74 different countries**
- ▣ **Across 6 continents**
- ▣ **49 currencies**
- ▣ **More than 12,000 investment holdings**



Who We Are – Board Member Transitions at the WSIB



Board comprised of 15 members

- ❑ 10 voting members drawn from a diverse group of system owners
- ❑ 5 non-voting investment experts selected by the voting members

This fall we will see several significant changes in Board membership/roles:

- ❑ Kelly Fox, LEOFF Plan 2 chair, now chairs the WSIB. He has served us since February 2013 and is serving his second 3-year term.
- ❑ State Treasurer – November election will determine whether Duane Davidson (Benton County) or Michael Waite (Seattle area) fills this ex-officio seat.
- ❑ Department of Retirement Services – Tracy Guerin, Deputy Director of the Office of Financial Management (OFM), has been appointed by the Governor to replace Marcie Frost, who was hired as CEO of CalPERS.
- ❑ Senator Mike Hewitt has retired. His replacement will be appointed this fall by the President of the Senate (Lieutenant Governor), based on majority membership of the Senate.
- ❑ Representative Timm Ormsby is expected to continue on the Board unless the GOP gains a majority in the House of Representatives and appoints its own replacement.



Who We Are – Retirement Plans at the Core

June 30, 2016

- ▣ Defined Benefit (DB) plans and hybrid DB/Defined Contribution (DC) plans commingled into one investment fund run by the WSIB:

Defined Benefit Plans	Market Value
Public Employees' Retirement System Plan 1 (PERS)	\$7,004,152,424
Public Employees' Retirement System Plan 2/3	\$31,547,441,363
Teachers' Retirement System Plan 1 (TRS)	\$5,429,869,201
Teachers' Retirement System Plan 2/3	\$15,188,610,160
Volunteer Fire Fighters' Relief & Pension Fund (VOLFF)	\$184,478,154
Washington State Patrol Retirement System Plan 1 (WSPRS)	\$1,042,574,750
Washington State Patrol Retirement System Plan 2	\$41,835,372
Law Enforcement Officers' & Fire Fighters' Plan 1 (LEOFF)	\$5,309,406,988
Law Enforcement Officers' & Fire Fighters' Plan 2	\$10,070,325,142
School Employees' Retirement System Plan 2/3 (SERS)	\$5,415,245,336
Public Safety Employees' Retirement System Plan 2 (PSERS)	\$391,009,208
Total	\$81,624,948,099

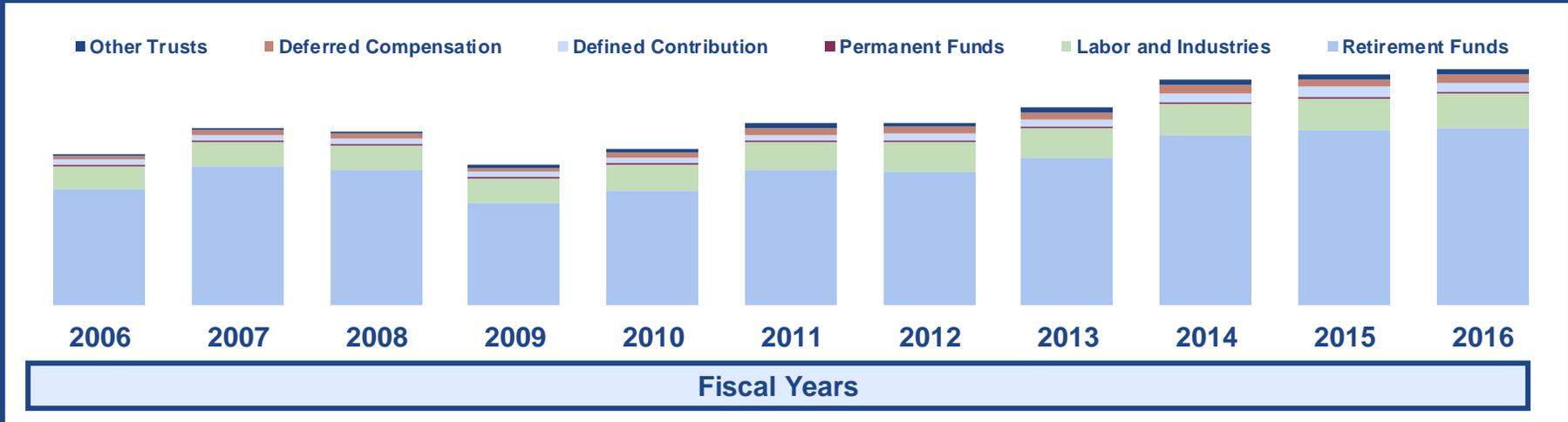
Defined Contribution Plans	Market Value
Deferred Compensation Program (DCP)	\$3,619,753,403
Judicial Retirement Account (JRA)	\$11,038,953
Total	\$3,630,792,356



Who We Are – Total Assets Under Management

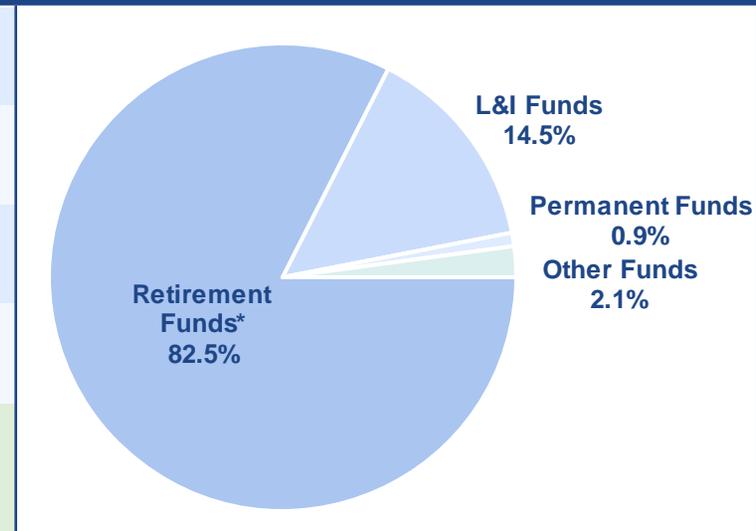
June 30, 2016

Past 10 Fiscal Years



Market Values and Allocation (in billions)

Retirement Funds*	\$89.5	82.5%
L&I Funds	\$15.7	14.5%
Permanent Funds	\$1.0	0.9%
Other Funds	\$2.3	2.1%
Total Assets Under Management	\$108.5	



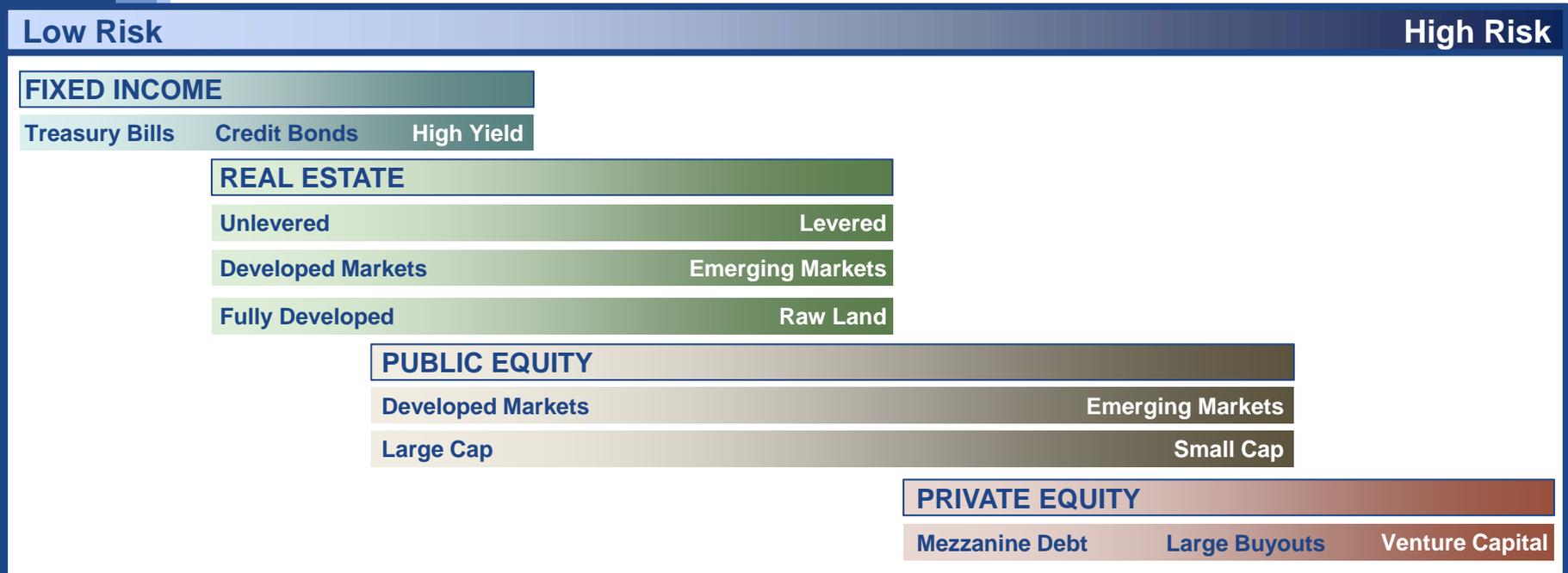
*CTF, DC Funds, and Higher Education Retirement Plan



What We Do – Diversification Across Asset Classes



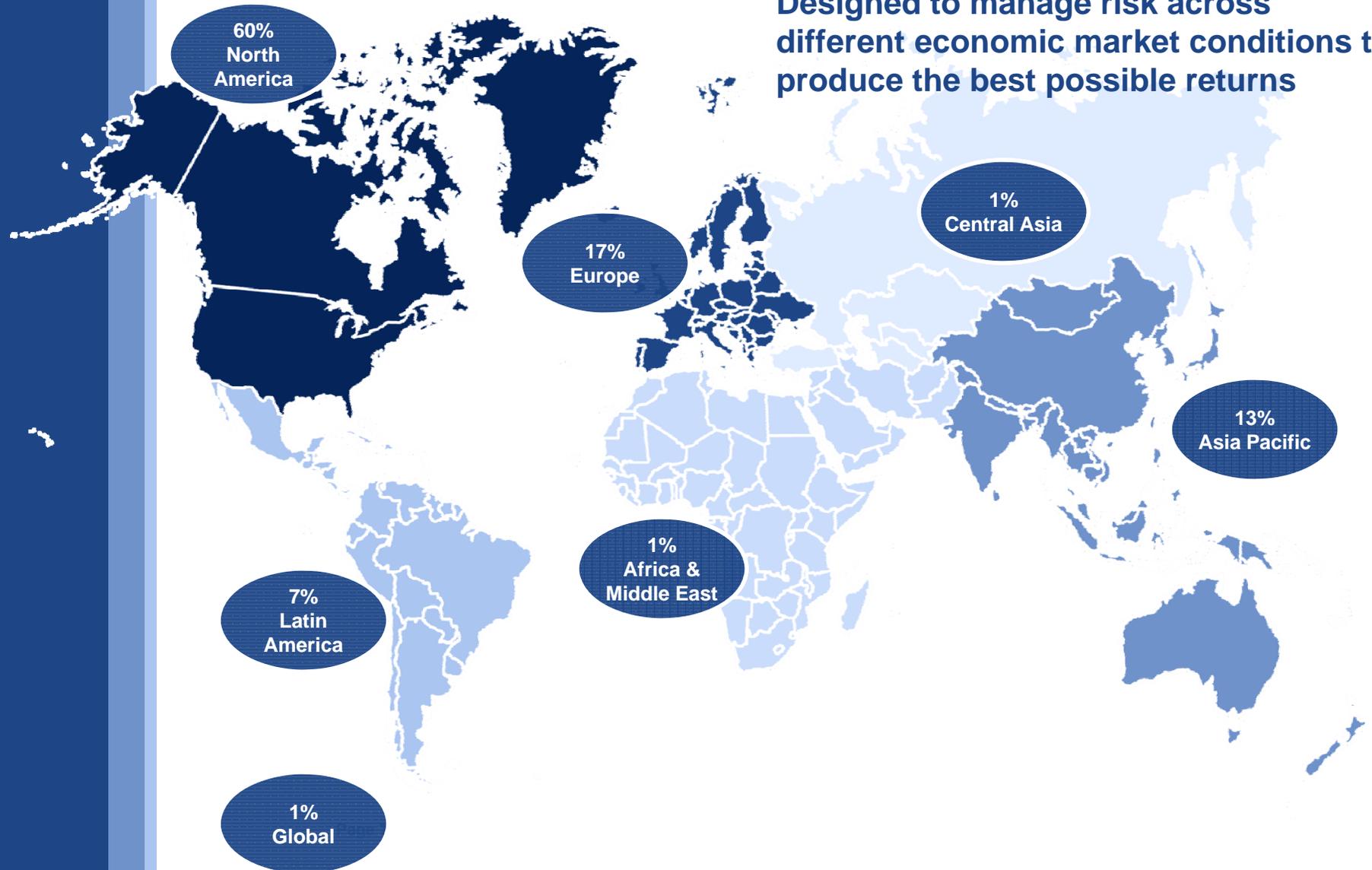
- ❑ WSIB seeks diversification across the portfolio and within each asset class.
- ❑ Each asset class contains its own range of risk/return potential.
- ❑ WSIB is known for its early emphasis on private equity, and this has allowed us to create a strong reputation in the marketplace.





What We Do – Diversification Across the Globe

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





What We Do – Diversification Across Public and Private Markets

Public Equity

Objective

- ▣ Capital appreciation
- ▣ Liquidity

Approach

- ▣ Externally-managed
- ▣ Significant passive management
- ▣ Globally-oriented
- ▣ Scale helps keep costs low

Fixed Income

Objective

- ▣ Diversification
- ▣ Liquidity

Approach

- ▣ Actively internally-managed
- ▣ High-quality portfolio
- ▣ Credit-oriented

Private Equity

Objective

- ▣ Long-term growth and appreciation
- ▣ Diversification

Approach

- ▣ Strong relationships with like-minded partners
- ▣ Equity in quality growth companies
- ▣ Buyouts; very little venture capital

Real Estate

Objective

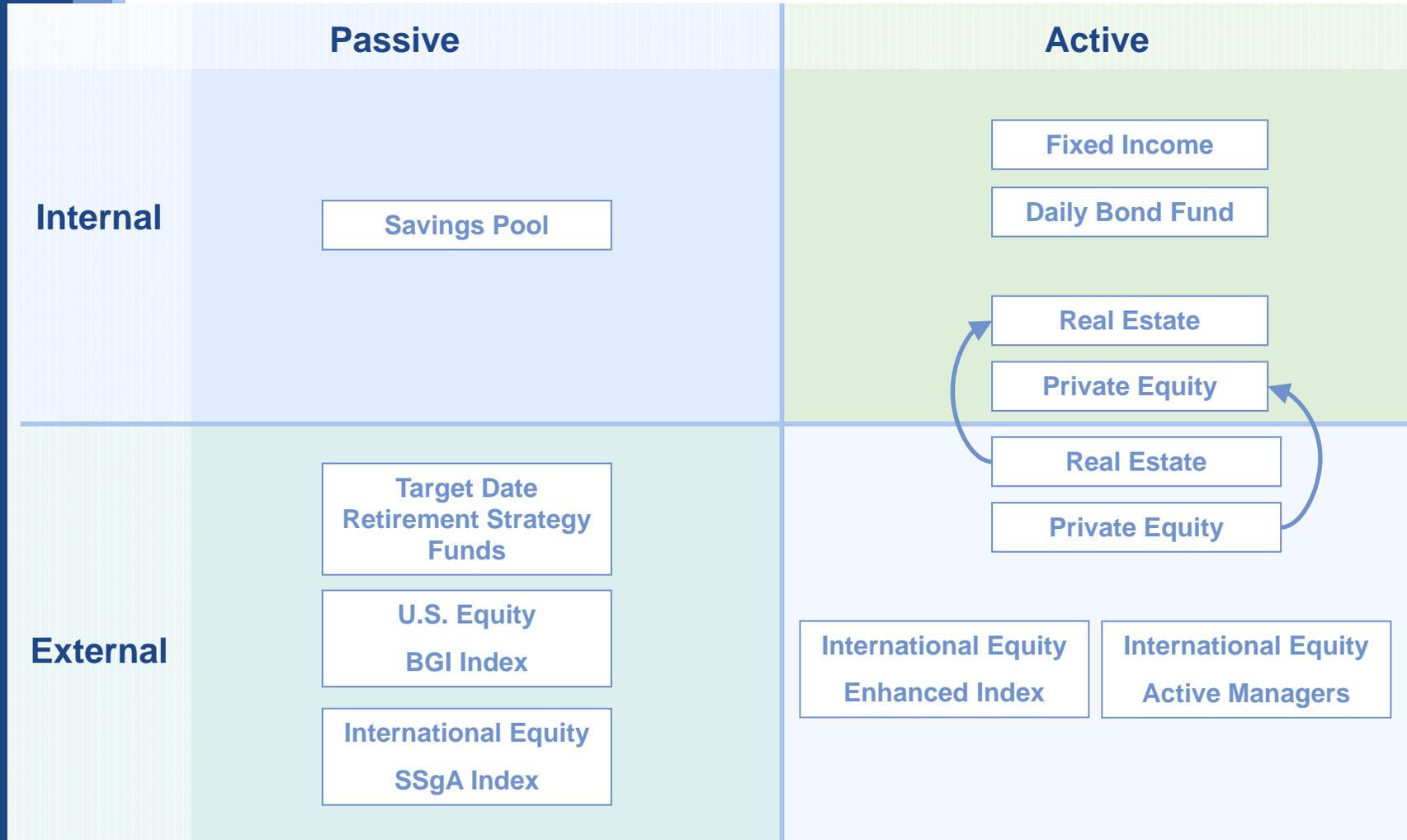
- ▣ Long-term growth and appreciation
- ▣ Global diversification
- ▣ Income generation

Approach

- ▣ Investing in life's essentials: agriculture, social needs, energy
- ▣ Direct stakes in operating companies



What We Do – Diversification by Investment Strategy





Powerful Forces – A Puzzling Market Environment



Low Growth, Low Rates

- ❑ Global economies are growing very slowly.
- ❑ Fed reluctant to raise interest rates in fragile environment.
- ❑ U.S. is bright spot, but capital markets are relatively expensive.
- ❑ Lack of corporate investment in favor of share buybacks.

Signs of Uncertainty

- ❑ Bonds largely outperformed stocks over the last year.
- ❑ 10-year Treasury yield hit record low in July.
- ❑ Germany, Japan and Switzerland post negative interest rates.
- ❑ Brexit – more mystery than clarity:
 - ❑ Will the UK-domiciled companies move to the Continent?
 - ❑ How will this affect free movement of business/labor/people?
 - ❑ How will EU investments be affected long term?
- ❑ Reversals:
 - ❑ Emerging market equities were lagging a year ago, now leading.
 - ❑ Energy and materials: cycling from weak to strong to weak.



Powerful Forces – Realistic Market Assumptions and Contributions



Capital Markets Stance

- ▣ Seeing lower market assumptions, but gently (7.8 to 7.7 percent).
- ▣ The real challenge is to manage expectations.
- ▣ Need to maintain discipline and investment approach.
- ▣ Remember we've been here before (low return environments).
- ▣ Our investment profile (asset allocation) is not typical for most investors, so our experience will vary from the norm too.
- ▣ Our focus is on discriminating for investment quality, not diversification alone.
- ▣ Our focus is on long term outcomes, not short-term gains or safety.

Contributions Stance

- ▣ Employers and employees must maintain honest contribution rates as reflection of discount rates.
- ▣ Avoid the pitfalls of underfunded pension plans.
- ▣ Instill transparency with beneficiaries and stakeholders, not fear.
- ▣ Strong working relationships between WSIB, Actuary and Pension Funding Council.



Our Distinctions – What Makes WSIB Different from Most Investors?

Our Investment Strategy

- ❑ Public equity is mostly passively-managed, and it has no internal management at this time.
- ❑ Fixed income is a 100 percent internally-managed and 100 percent actively-managed program.

Our Focus

- ❑ We continue to explore ways to invest where the growth is—currently in emerging markets.
- ❑ We continually explore “smarter” ways to maximize our investment returns at a prudent level of risk.
- ❑ Market turmoil simply means investment return opportunity for patient long-term investors with discipline.

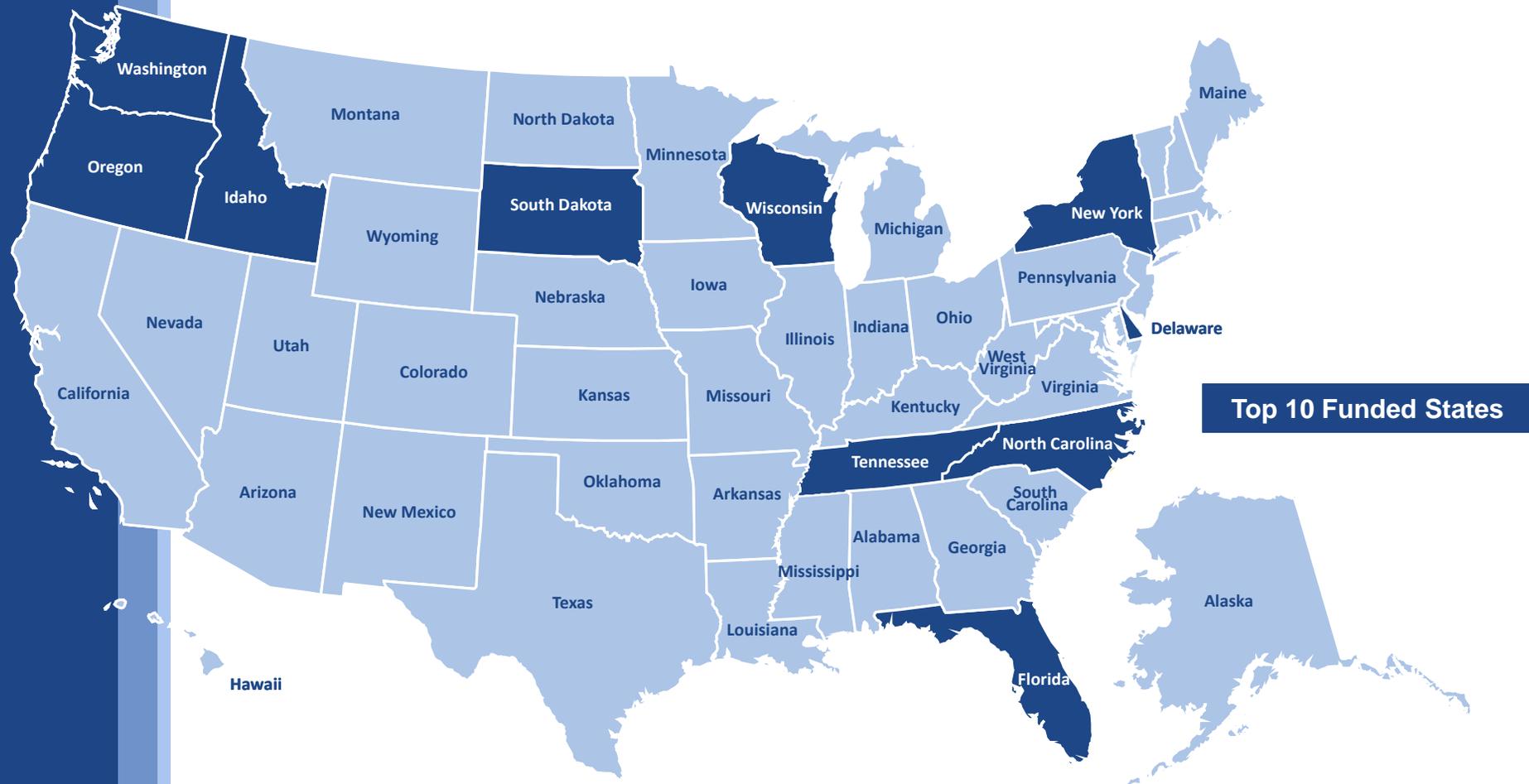
Our People

- ❑ Our staff takes tremendous pride in working for the exclusive benefit of the more than 400,000 members who rely upon the WSIB to manage the security of their financial futures.



Our Results – Maintaining a Strong Funded Status

One of the Best Funded Pension Systems in the Nation

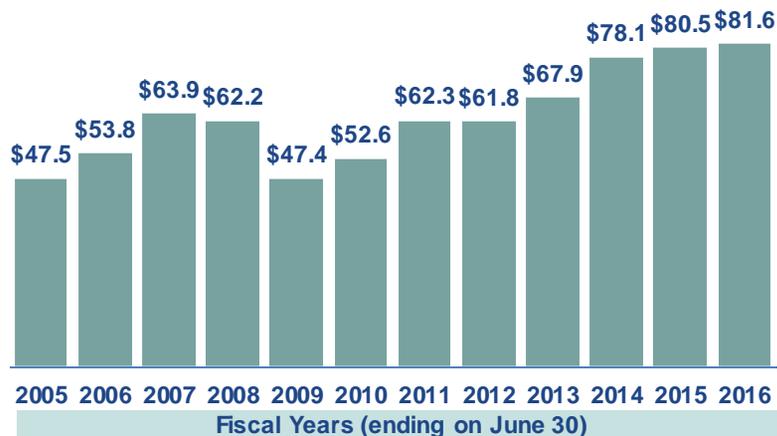




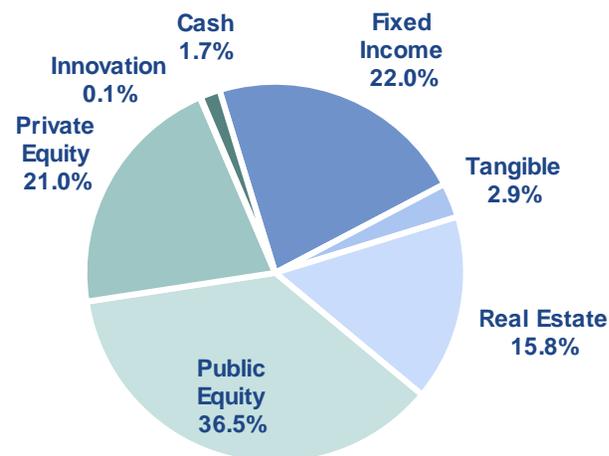
Our Results – Commingled Trust Fund Performance and Market Values

June 30, 2016

Historical Market Value (billions)



Actual Allocation



Historical Fund Returns

Return Since Inception of the
Commingled Trust Fund (CTF)

(Since June 1992):

8.53%

Market Values and Returns

Commingled Trust Fund (CTF) Market Values and Returns

	Market Value (000s)	1 Year	3 Year	5 Year	10 Year
Total CTF	\$81,624,948,098	2.65%	8.03%	7.51%	6.18%
Fixed Income	\$17,990,489,328	4.77%	3.65%	3.44%	5.78%
Tangibles	\$2,396,374,903	-0.77%	2.59%	1.61%	N/A
Real Estate	\$12,881,161,786	10.43%	12.56%	12.79%	7.48%
Public Equity	\$29,828,707,115	-2.60%	7.03%	6.36%	4.75%
Private Equity	\$17,108,949,429	4.67%	11.80%	10.81%	8.98%
Innovation	\$63,807,984	-4.80%	5.81%	6.90%	N/A
Cash	\$1,355,457,553	0.32%	0.18%	0.17%	1.18%