



**Washington State
Investment Board**

Washington State Investment Board Update



**Theresa Whitmarsh, Executive Director
Washington State Investment Board
November 18, 2015**



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 with more than \$106 billion of assets under management

The WSIB works closely with its clients to ensure its investment strategies meet their risk and return objectives

On their behalf, WSIB manages investments in:

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

The WSIB delivers strong returns for:

- ▣ **17 pension funds**
- ▣ **5 Labor and Industry Funds**
- ▣ **6 endowment funds**
- ▣ **6 other government funds**



Who We Are – WSIB Has Scale Advantage

- DB plans and hybrid DB/DC plans commingled into one investment fund run by the WSIB

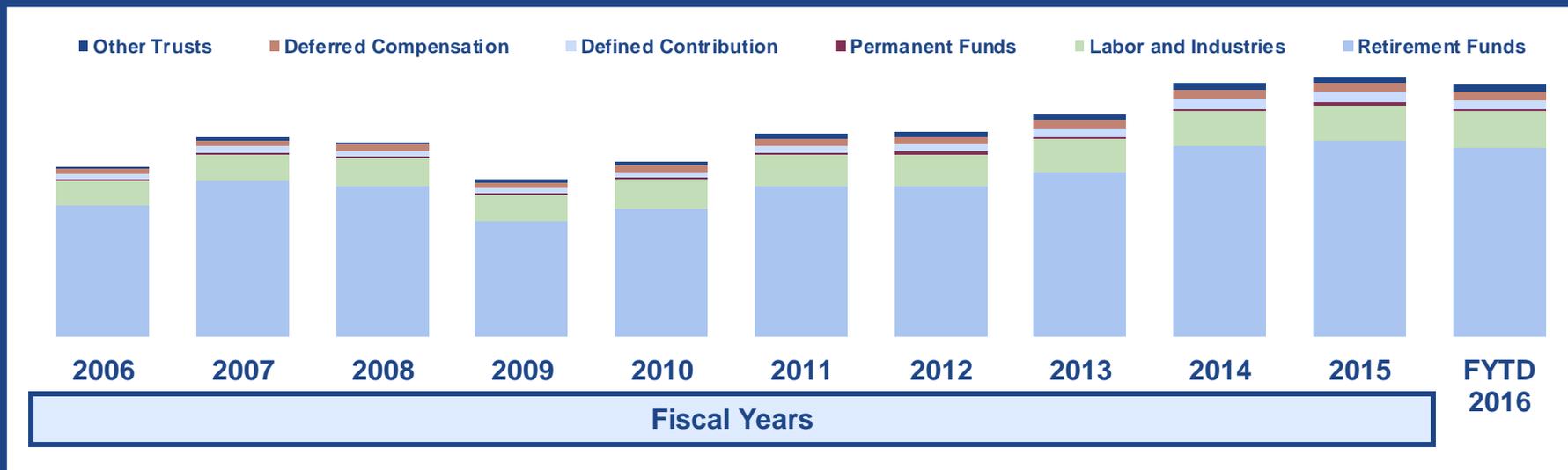
Defined Benefit Plans (as of September 30, 2015)	Market Value
Public Employees' Retirement System Plan 1 (PERS)	\$7,085,031,541
Public Employees' Retirement System Plan 2/3	\$29,661,683,280
Teachers' Retirement System Plan 1 (TRS)	\$5,640,791,308
Teachers' Retirement System Plan 2/3	\$14,152,221,988
Volunteer Fire Fighters' Relief & Pension Fund (VOLFF)	\$179,753,992
Washington State Patrol Retirement System Plan 1 (WSPRS)	\$1,019,549,273
Washington State Patrol Retirement System Plan 2	\$35,410,148
Law Enforcement Officers' & Fire Fighters' Plan 1 (LEOFF)	\$5,292,899,159
Law Enforcement Officers' & Fire Fighters' Plan 2	\$9,446,478,062
School Employees' Retirement System Plan 2/3 (SERS)	\$5,084,533,879
Public Safety Employees' Retirement System Plan 2 (PSERS)	\$342,199,118
Total	\$77,940,551,748

Defined Contribution Plans	Market Value
Deferred Compensation Program (DCP)	\$3,416,297,975
Judicial Retirement Account (JRA)	\$11,540,635
Total	\$3,427,838,610



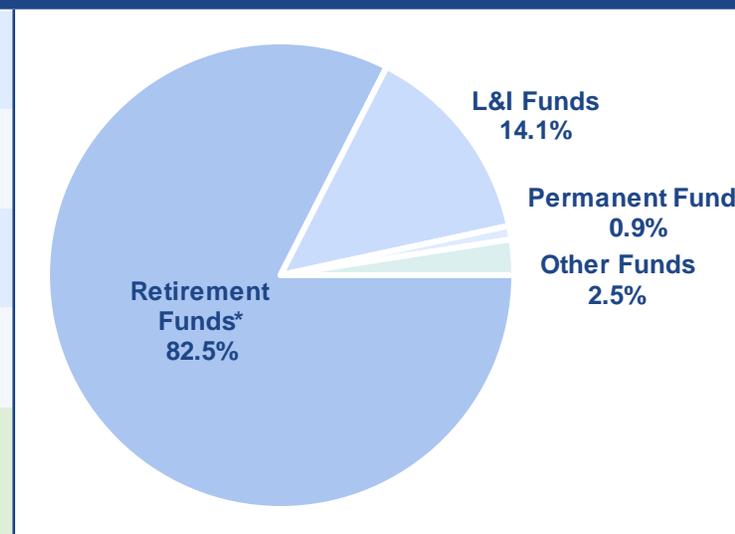
Who We Are – Total Assets Under Management – September 30, 2015

Past 10 Fiscal Years



Market Values and Allocation (in billions)

Retirement Funds*	\$85.3	82.5%
L&I Funds	\$14.6	14.1%
Permanent Funds	\$1.0	0.9%
Other Funds	\$2.5	2.5%
Total Assets Under Management	\$103.4	



*Commingled Trust Fund (CTF), DC Funds, and Higher Education Retirement Plan



Who We Are – Strong Governance Structure



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

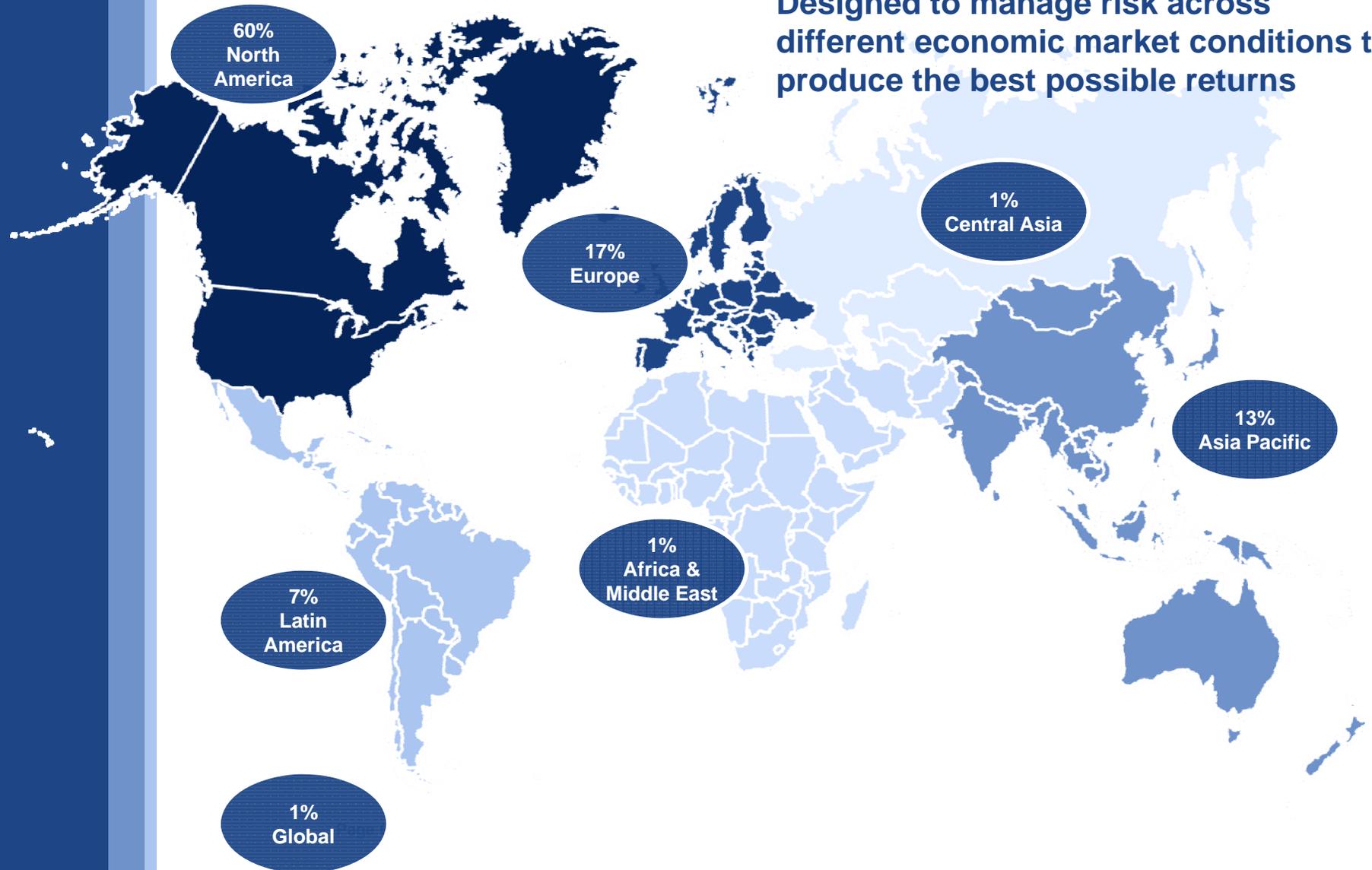
90 professional staff

	Appointment Authority	Name	Position
10 Voting	Ex-Officio	Jim McIntire	State Treasurer
		Marcie Frost, Chair	Director, DRS
		Joel Sacks	Director, Labor & Industries
	Senate President	Mike Hewitt	State Senator
	House Speaker	Timm Ormsby	State Representative
	Governor	Judy Kuschel	Active Member, PERS
		George Masten	Retired Member, PERS
		Kelly Fox, Vice Chair	Active Member, LEOFF
	Superintendent of Public Instruction	Arlista D. Holman	Active Member, SERS
		Stephen Miller	Active Member, TRS
5 Investment Professionals	Selected by the Board	Robert Nakahara	
		Jeffrey Seely	
		David Nierenberg	
		William A. Longbrake	
		Richard Muhlebach	



Who We Are – Global Investor

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

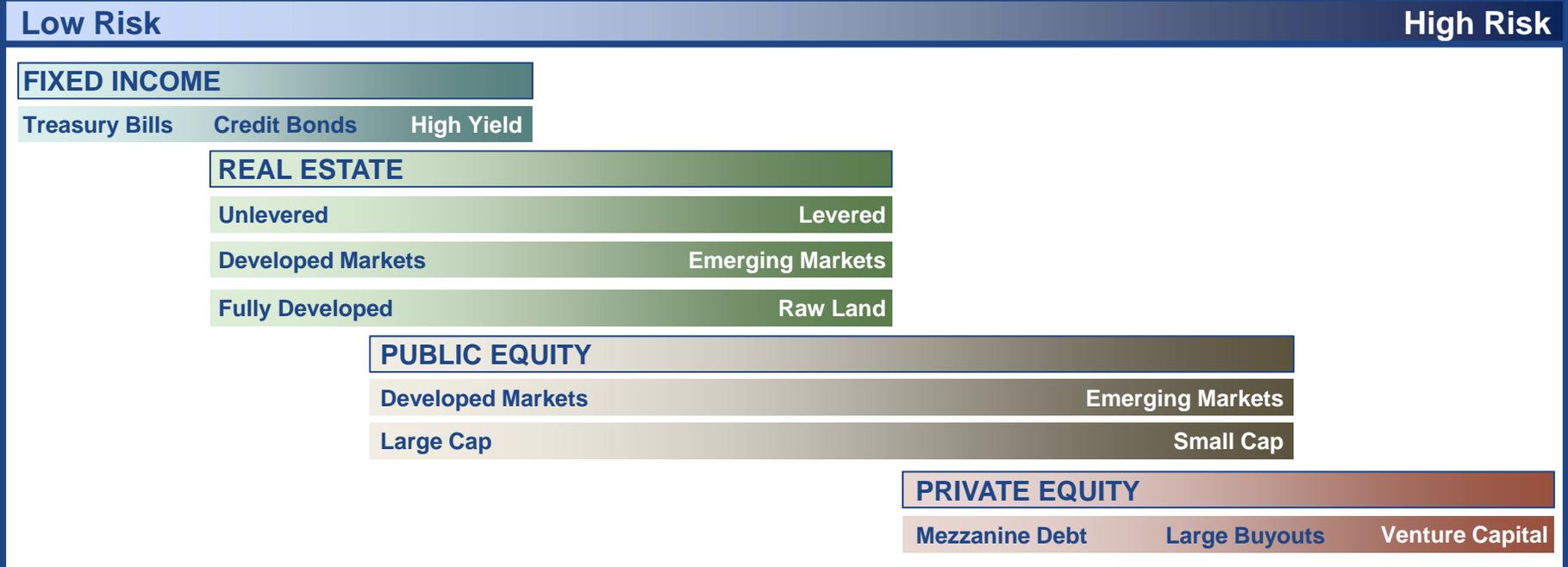




What We Do – Market Risk Spectrum



- WSIB seeks diversification across the portfolio and within each asset class
- Implementation within each asset class will determine how risk is concentrated
- Weight of each asset class must match risk profile





What We Do – Managing Public Assets

Public Equity

Objective

- ▣ Capital appreciation
- ▣ Liquidity

Approach

- ▣ Externally managed
- ▣ Significant passive management
- ▣ Globally oriented
- ▣ Scale creates significant cost advantages

Fixed Income

Objective

- ▣ Diversification
- ▣ Liquidity

Approach

- ▣ Actively internally managed
- ▣ High quality portfolio
- ▣ Credit oriented
- ▣ Emerging markets exposure



What We Do – Managing Private Assets

Private Equity

- ❑ The portfolio is well diversified by fund, by general partner, by geography, by strategy sub-sector, by industry, by vintage year
- ❑ Portfolio is primarily composed of private equity/buyouts and very little exposure to venture capital, which is a higher risk sub-class
- ❑ Allocation to distressed debt, a subclass that generally performs well when equity strategies perform poorly, provides somewhat of a hedge during market downturns

Real Estate

- ❑ Broadly diversified across multiple investment partners, property types, and geographies
- ❑ Direct stake in hundreds of properties in a diversity of markets
- ❑ Strong focus on fundamental human needs – agriculture, energy, and social essentials



What We Do – More Ways to Manage Risk in Private Markets

Public Markets Toolkit

Buy Decision

Sell Decision

Private Assets Toolkit

Buy Decision

Deal Structure

Governance Rights

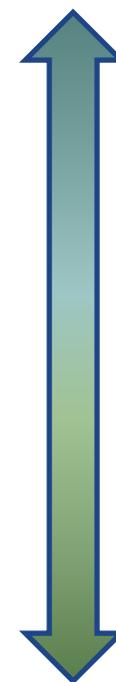
Financial Leverage

Operating Restructuring

Management Incentives

Strategic Direction

Sell Decision



Private assets toolkit provides various levers to create value in transactions



Our Results – WSIB is a Low-Cost Agency



WSIB's total investment cost was 63.4 basis points* (bps) compared to estimated peer costs of 83.7 bps

- ▣ **This is a cost savings of 20.3 bps – considerably less than our peers**
- ▣ **Our peer universe consists of 57 U.S. public pension funds**

WSIB staffing is well below the global and U.S. peer medians

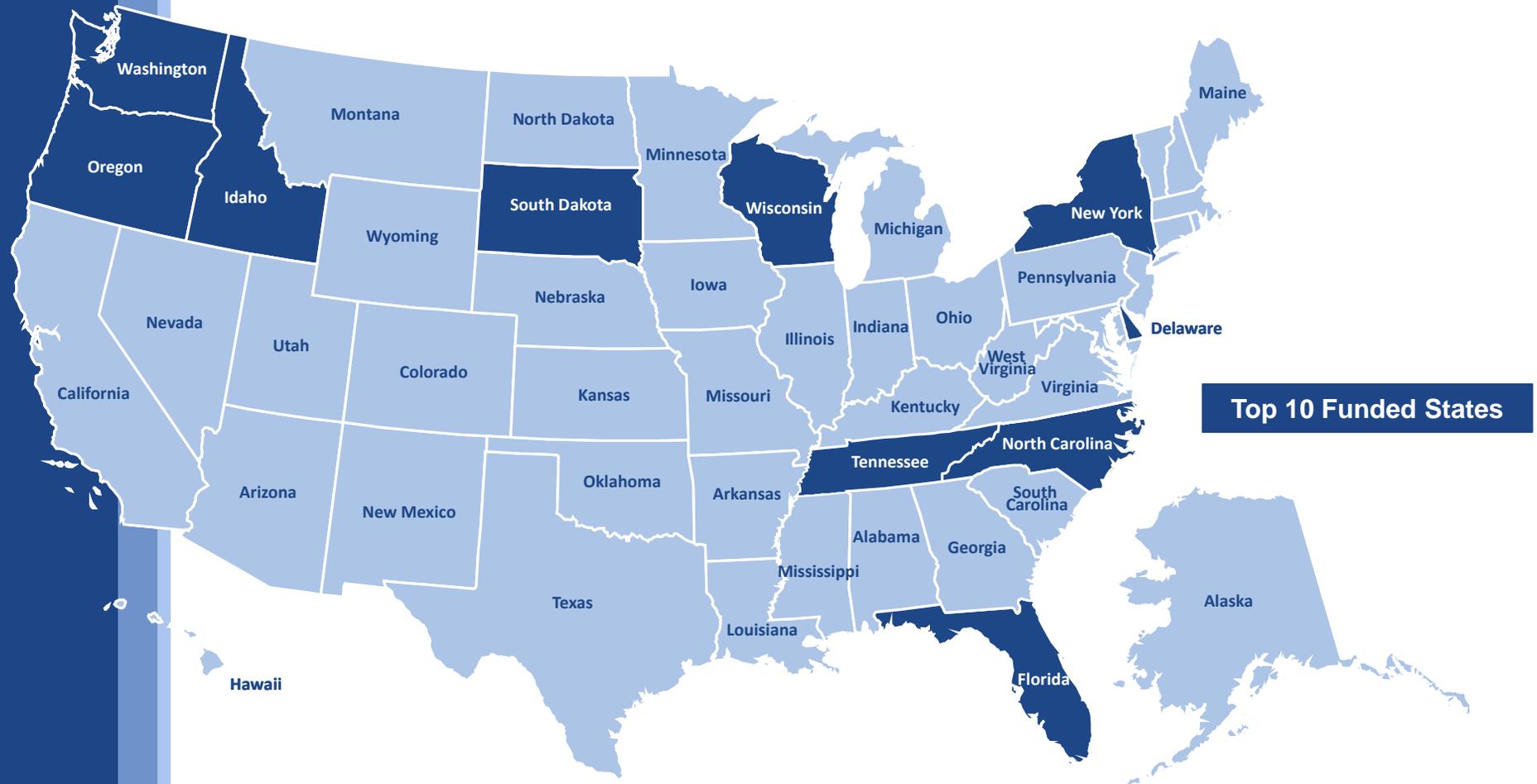
Source: CEM Benchmarking Study, 2014

* Basis point = 1/100th of 1% (e.g., 100 basis points = 1%)



Our Results – A Strong Reputation

One of the Best Funded Pension Systems in the Nation

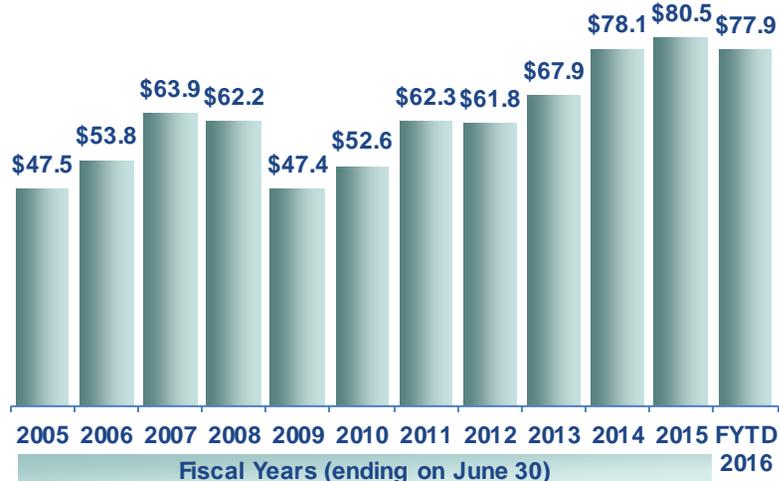




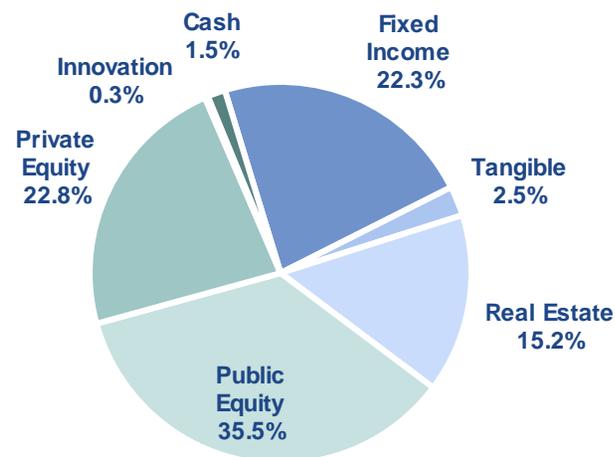
Our Results – Commingled Trust Fund Performance and Market Values

September 30, 2015

Historical Market Value (billions)



Actual Allocation



Historical Fund Returns

Return Since Inception of the Commingled Trust Fund (CTF)

(Since June 1992):

8.57%

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	\$77,940,551,748	1.73%	8.76%	8.87%	6.73%
Fixed Income	\$17,386,719,074	-1.49%	0.57%	2.63%	5.10%
Tangibles	\$1,958,391,085	-1.23%	2.97%	3.56%	N/A
Real Estate	\$11,811,353,263	14.51%	14.41%	14.11%	8.77%
Public Equity	\$27,649,106,952	-5.37%	8.05%	7.75%	5.02%
Private Equity	\$17,757,072,348	10.31%	15.44%	14.23%	11.44%
Innovation	\$210,739,357	-23.72%	10.21%	6.98%	N/A
Cash	\$1,167,169,670	0.12%	0.12%	0.14%	1.48%