



**Washington State
Investment Board**

WSIB Update for the LEOFF Board



**Theresa Whitmarsh
Executive Director
September 24, 2014**



Overview



- ▣ Board Changes
- ▣ Commingled Trust Fund (CTF) Performance and Market Values
- ▣ Source of WSIB Excellent Performance
- ▣ Market Outlook
- ▣ National Standing
- ▣ Cost Effectiveness
- ▣ Conclusion



Overseen by an Excellent Board



The 10 voting and 5 non-voting members of the Board are fiduciaries whose mission is to manage investments for retirement and other public funds with the exclusive benefit of beneficiaries.

The WSIB adheres to rigorous conflict of interest policies to ensure the highest standards of ethical behavior and conduct.

	Appointment Authority	Name	Position
10 Voting	Ex-Officio	Jim McIntire	State Treasurer
		Marcie Frost	Director, Retirement Systems
		Joel Sacks	Director, Labor & Industries
	Senate President	Sharon Nelson	State Senator
	House Speaker	Timm Ormsby	State Representative
5 Investment Professionals	Governor	Judy Kuschel	Active Member, PERS
		George Masten	Retired Member, PERS
		Kelly Fox	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	



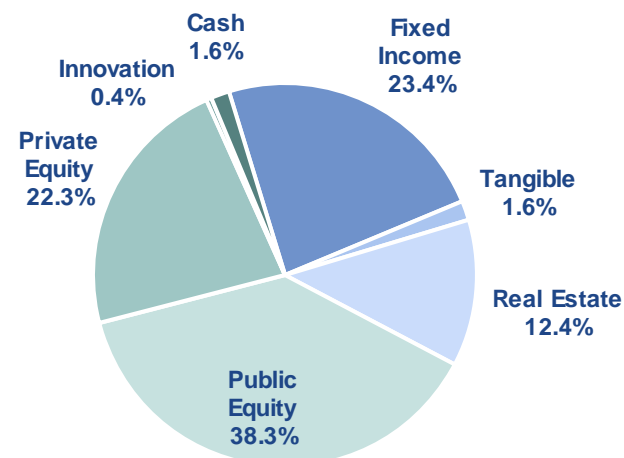
Deliver Excellent Performance

Commingled Trust Fund Performance & Market Values – June 30, 2014

Historical Market Value (billions)



Actual Allocation



Historical Fund Returns



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	\$78,109,056,127	17.06%	10.07%	12.83%	8.35%
Fixed Income	\$18,310,766,384	5.96%	4.06%	6.38%	6.00%
Tangibles	\$1,277,008,538	4.99%	1.75%	4.34%	N/A
Real Estate	\$9,654,448,437	13.01%	13.08%	9.73%	9.78%
Public Equity	\$29,886,884,510	24.20%	11.30%	15.44%	7.73%
Private Equity	\$17,421,269,499	20.02%	12.79%	17.20%	13.26%
Innovation	\$347,768,448	38.84%	17.83%	N/A	N/A
Cash	\$1,210,910,312	0.11%	0.14%	0.15%	1.72%



Source of WSIB Excellent Performance



Fixed income increased by \$4.3 billion during the current fiscal year

- ▣ Returned 6.0 percent during the current fiscal year
- ▣ The global low interest rate environment continued in Fiscal Year 2014 primarily driven by broadly accommodative central bank policy
- ▣ The one-year period was characterized by two distinct fixed income environments
- ▣ The first half of the fiscal year experienced an increased rate environment, likely driven by improving global economic conditions combined with concerns over potential tightening of U.S. monetary policy
- ▣ In the second half of the fiscal year, however, rates declined as evidence of slowing global growth emerged and concern over geopolitical events grew
- ▣ Investment grade corporate fixed income benefitted from spreads tightening which led to outperformance versus Treasuries
- ▣ Default activity for investment grade issuers and spreads relative to Treasuries are low relative to historical standards

Equity securities increased by \$4.1 billion, almost entirely due to positive returns in the equity markets



Source of WSIB Excellent Performance



Alternative investments increased by \$3.2 billion

- ▣ Distributions received from general partners totaled \$7.1 billion
- ▣ The private equity market environment continued to be decidedly favorable during Fiscal Year 2014, extending the prior year's run
- ▣ While pricing trended up as a result of robust valuation across sectors, the availability of debt funding on extremely attractive terms continued to increase and Initial Public Offerings and trade sale conditions remained buoyant, allowing for sustained investment activity
- ▣ The strong return from real estate in Fiscal Year 2014 resulted from a combination of appreciation due to high investor demand and the completion of a number of properties that had been under development
- ▣ The primary drivers behind the Fiscal Year 2014 tangible asset return was income generation, portfolio management activities, and asset purchases and sales

One of the benefits of the diversification gained by investing across various investment types, as well as broadly within an asset class, is the reduction in aggregate volatility of the total investment portfolio



Market Outlook – Still Cautious



Global

- ▣ Global growth will continue to be weak
- ▣ Emerging markets are the bright spot with higher growth, lower debt, and lower fiscal deficits than the developed world

U.S.

- ▣ The economy will perform better than economies of Europe and Japan
- ▣ Inflation will remain contained
- ▣ Housing recovery will continue
- ▣ Energy investment boom is a long-term positive for the U.S.



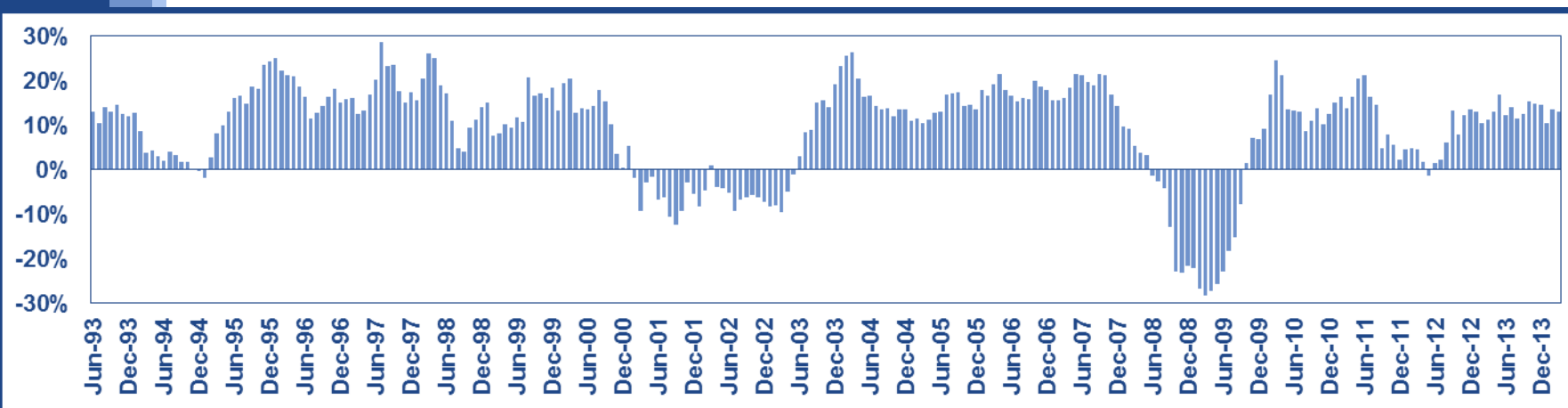
Long-Term Investment Policy Expects Volatility

WSIB uses a 15-20 year horizon for investing

- WSIB does not need to strictly match pension liabilities with the short-term ups and downs of the market

A long time horizon allows opportunities to take more risk

- Higher-risk portfolios have more volatility in annual returns, but can achieve higher returns over the long term – this means lower pension contribution rates over the long term
- Lower-risk portfolios have lower volatility in returns, but expected returns are less – this means more of long-term pension costs must be covered by contributions





Investment Volatility Was Less Than Expected Over the Past 20 Years

Even though the picture of investment volatility was very different from the first decade to the second, the amount of volatility over the 20-year period was well within long-term expectations

How did experience compare to expectations?

- ▣ Three-quarters of actual investment returns fell inside the expected “interquartile range” and only one-fourth of the actual investment returns fell outside of the expected range

Even the five events that were outside of the expected range were anticipated by WSIB’s modeling, including the one-in-one-hundred-year event that occurred at the end of the period (-22.8% annual rate of return)

What is more striking about the two-decade period is the contrast between the first decade and the second

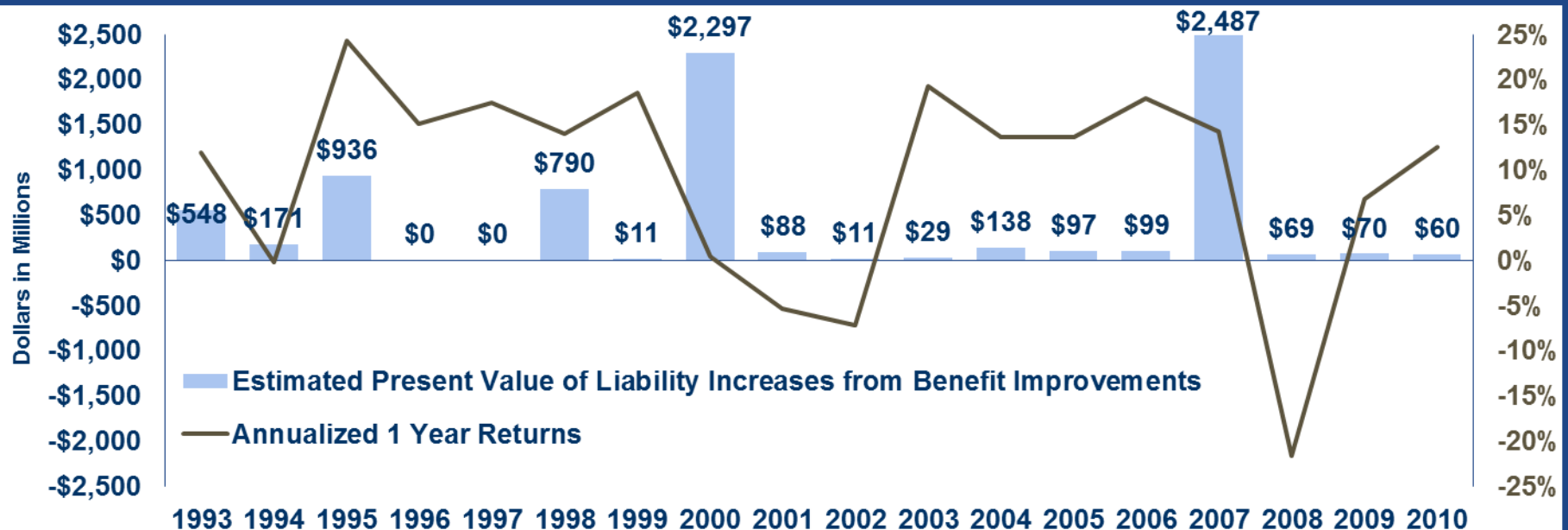
- ▣ The first decade experienced extended upward volatility
- ▣ There were no negative returns and significant positive returns, especially in the latter part of the decade



Prudent to Proceed with Caution

Historically when investment returns exceed expectations, contribution rates have declined and benefits have increased

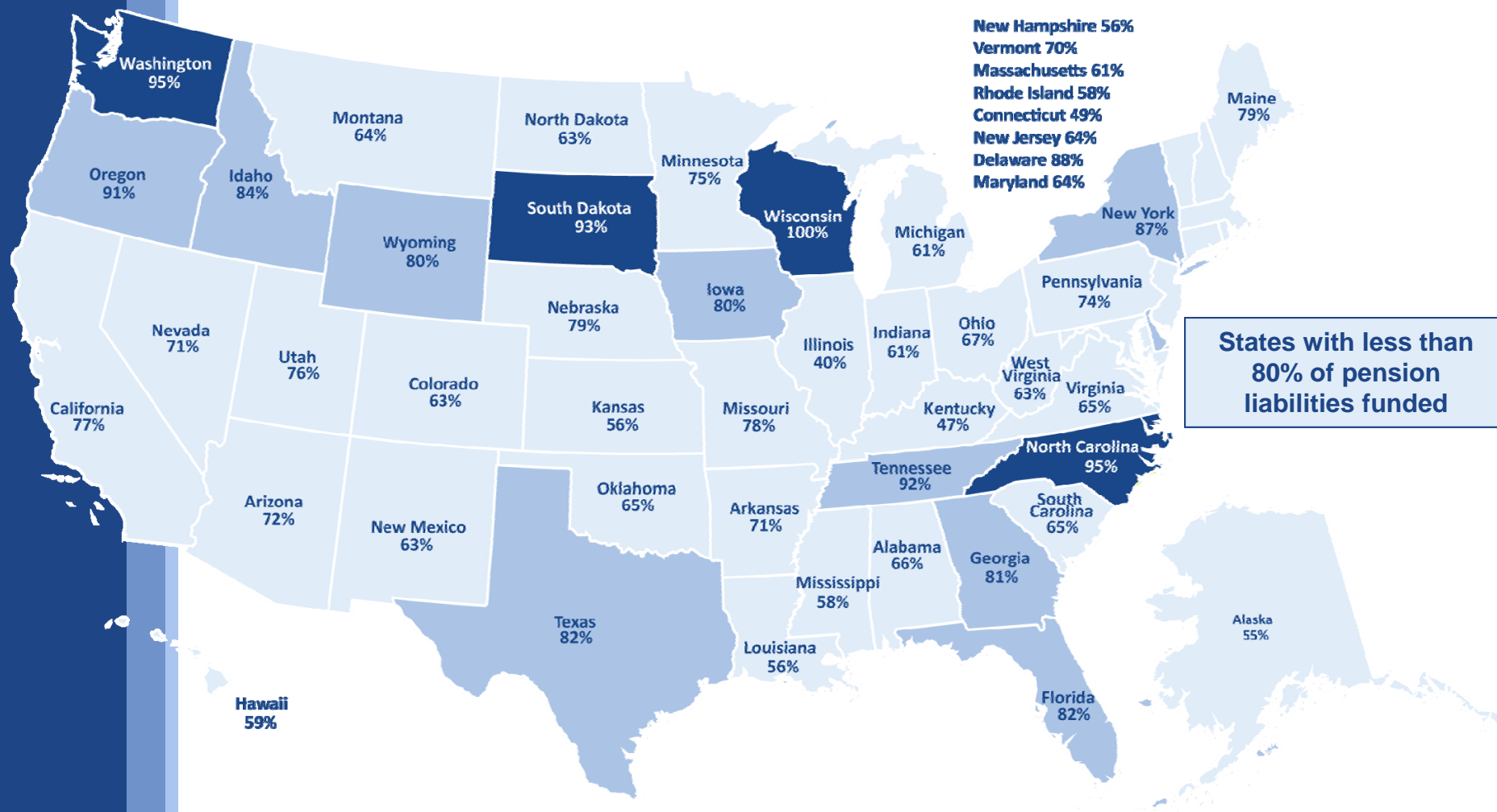
Estimated Present Value of Liability Increases from Benefit Improvements Compared to Historical Annualized Returns





WSIB Retirement Fund Results: Top Four Funded Pension Systems

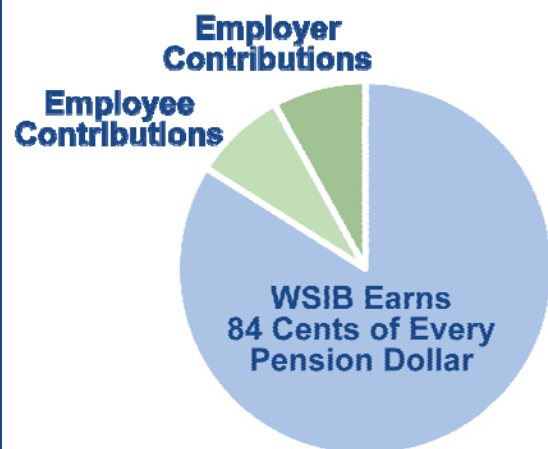
The WSIB's long term, diversified investment strategy has made Washington's public pension fund one of the best performing in the nation



Source: The PEW Center on the States, June 2012. "The Widening Gap Update."



WSIB Retirement Fund Results: Great Returns at Low Cost to System



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

WSIB Expenses 2014
\$363 Million
(0.35%)

Total Assets Under Management
(as of June 30, 2014)
\$104.0 Billion



Conclusion



WSIB continues to be committed to:

- ▣ Market leadership
- ▣ Cost effectiveness
- ▣ Transparency
- ▣ Integrity