



LEOFF Board



October 22, 2008

Joe Dear, Executive Director, WSIB



Overview

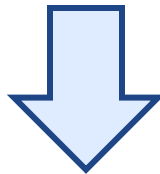


- ❑ What happened
- ❑ Capital market environment
- ❑ WSIB performance
- ❑ Concluding observations
- ❑ Questions

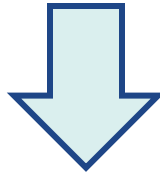
What Happened



- ❑ Housing prices surged
- ❑ Mortgage securities mispriced
- ❑ Faulty risk models
- ❑ Compromised credit ratings
- ❑ Misaligned compensation
- ❑ Investor cupidity
- ❑ Inadequate/ineffective regulation
- ❑ Excess leverage



Loss of confidence



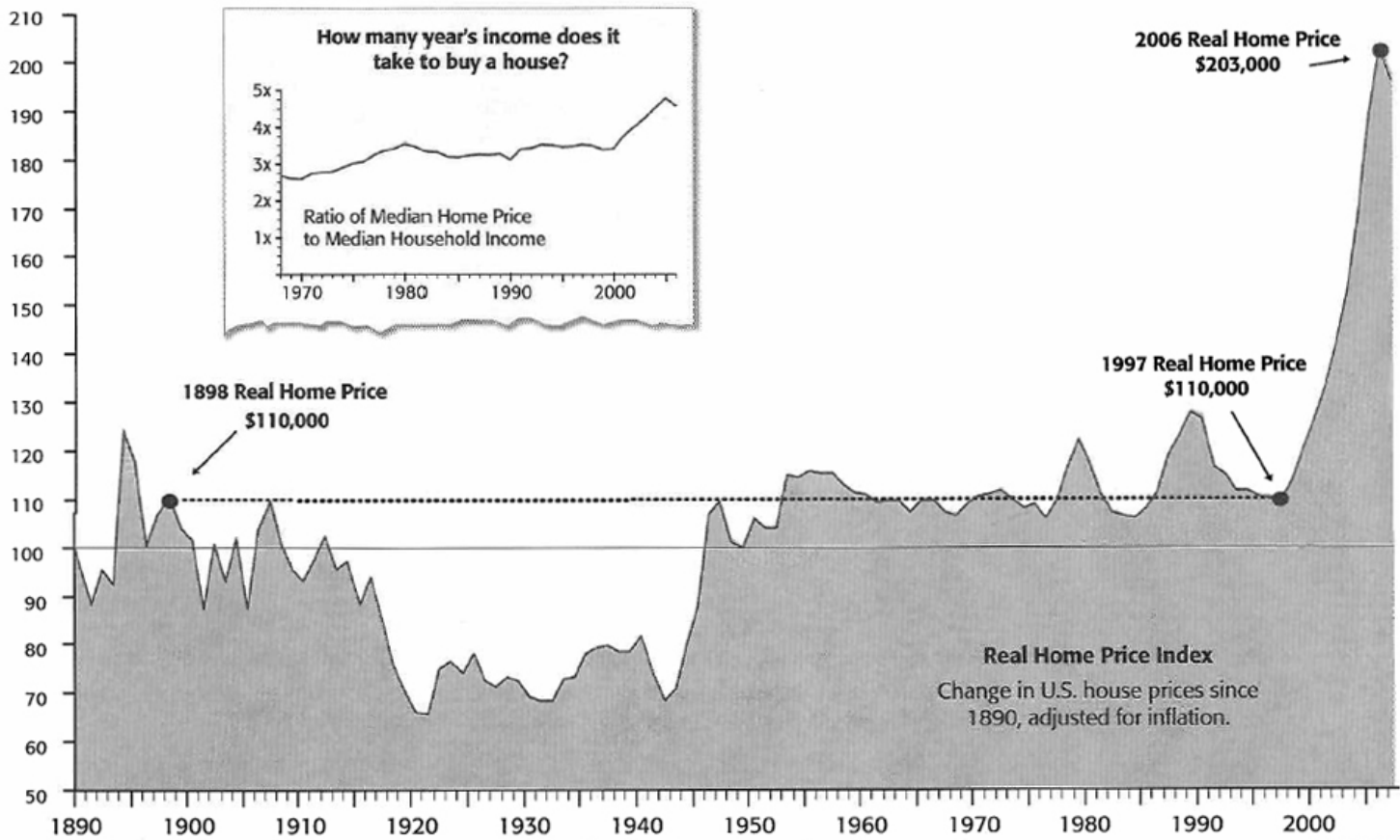
Financial system meltdown

CHART TALK

BY: DAVID A. HERSHEY, CFA

Understanding the Housing Story

Between 1898 and 1997 home prices fluctuated but adjusted for inflation (real) prices were virtually unchanged over that 100 year period. But then something happened without historical precedence. Over the nine year period between 1997 and 2006 housing prices soared by 85% above that 100 year price.



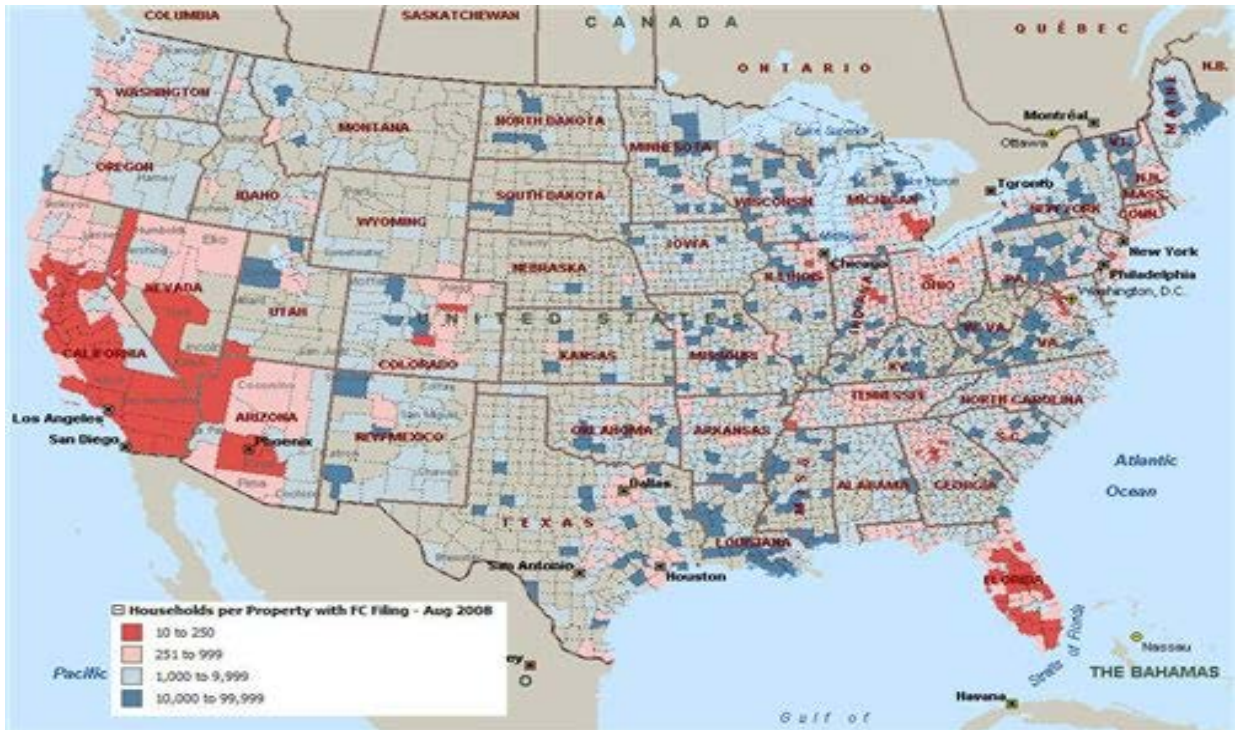
Sources: Robert J. Schiller "Irrational Exuberances" and National Association for Realtors—Median home sales price U.S. Census Bureau—Median household income in current dollars.

07-0104-1007-CT

U.S. Foreclosure Activity 2008

Top 10 Metro Areas with the Highest Foreclosure Rates as of August 31, 2008

Metro Area, State	% Households in Foreclosure
Stockton, CA	2.00%
Merced, CA	1.89%
Modesto, CA	1.70%
Vallejo-Fairfield, CA	1.60%
Riverside - San Bernadino, CA	1.59%
Cape Coral - Ft. Myers, FL	1.52%
Las Vegas - Paradise, NV	1.33%
Bakersfield, CA	1.18%
Salinas - Monterey, CA	1.16%
Sacramento, CA	1.11%



Top 10 States with the Highest Foreclosure Rates as of August 31, 2008

State Name	1/Every Household	% Change from July 2008	% Change from August 2007
Nevada	91	16.36	88.9
California	130	40.73	75.77
Arizona	182	7.36	62.6
Florida	194	-4.11	29.67
Michigan	332	17.38	-12.59
Georgia	442	-12.98	-10.98
Ohio	444	-15.59	-36.16
Colorado	452	-13.82	-29.65
Illinois	483	20.66	72.91
Indiana	522	10.35	5.39
United States	416	11.65	26.69



Housing Prices: Downward Pressure

- ▣ The residential credit boom led to excess capacity in shelter
- ▣ The excess shelter will be absorbed

Incremental Home Inventory From:	Home (mm)	Years ¹
A decline in the home ownership rate to 64%	4.4	3.3
Excess existing home inventory on market ²	1.7	1.3
Excess new home inventory on market ²	0.2	0.1
Total	6.3	4.7

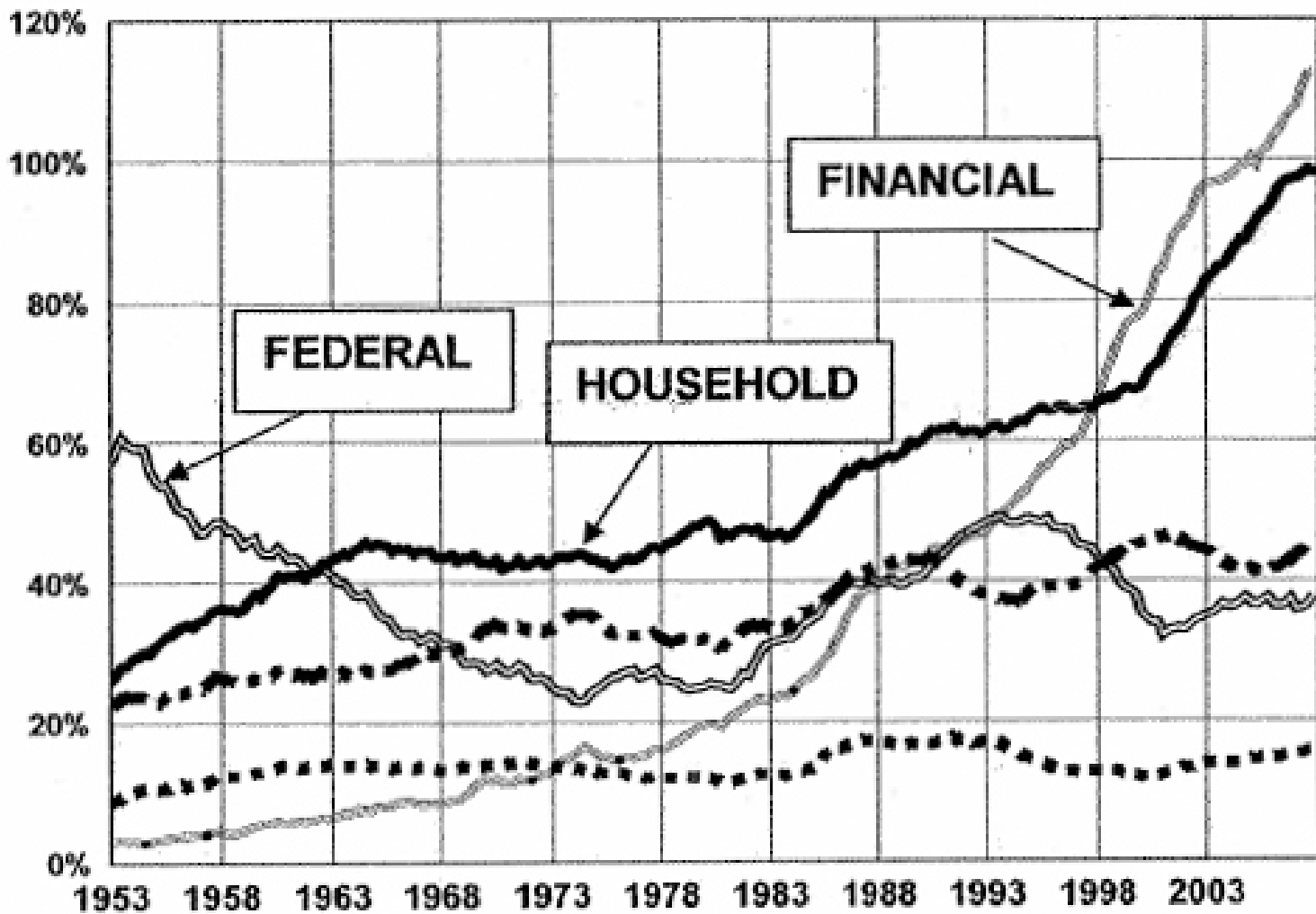
	Equilibrium Homeownership Rate					
	64.0%	65.0%	66.0%	67.0%	68.0%	69.0%
Years to recovery	4.7	3.9	3	2.2	1.4	0.6
Months to recovery	56	46	36	27	17	7
Date of recovery	Mid 2013	Mid 2012	Mid 2011	Late 2010	Early 2010	Mid 2009

¹ Assuming 1.35 mm of base level of annual demand

² Defined as inventory that would need to be removed to return to normalized levels of monthly supply.

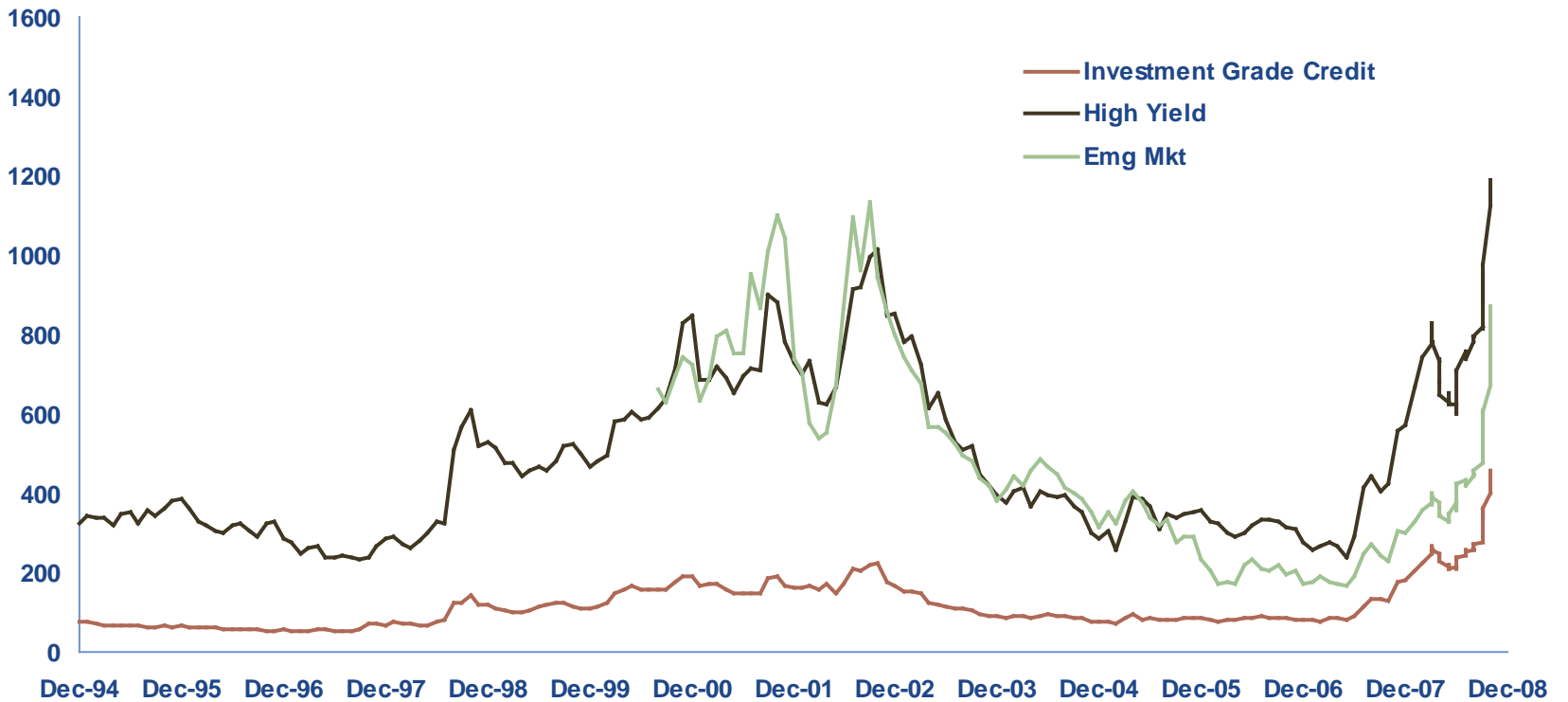


SECTOR DEBTS AS % OF NOMINAL GDP 1953:1 - 2008:1



Credit Spreads Widen – December 1994 – October 10, 2008

Credit Spreads (bp)





Range 04/16/01 - 10/17/08 Upper Mid Line ▼ Mov. Avgs
Period Daily ▼ Lower None ▼ Mov. Avg 15 Events

Legend Track Annotations News Zoom Period/Range Events

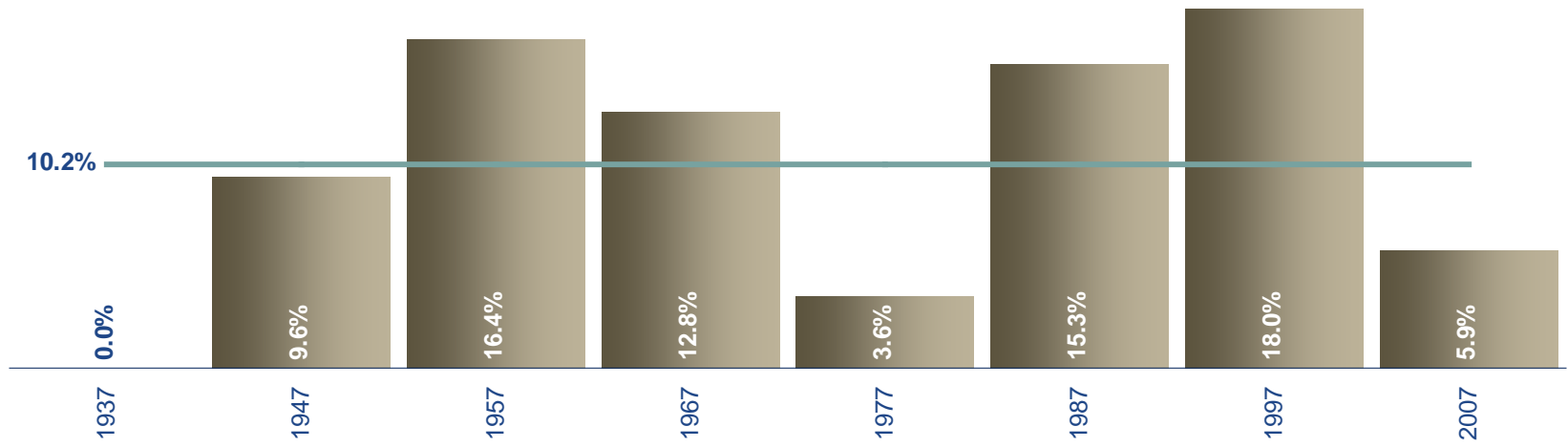


Mid Line -9.044
High on 03/04/04 1.496
Average -0.268
Low on 10/10/08 -10.024



Equity Returns Can be Low for Long Periods

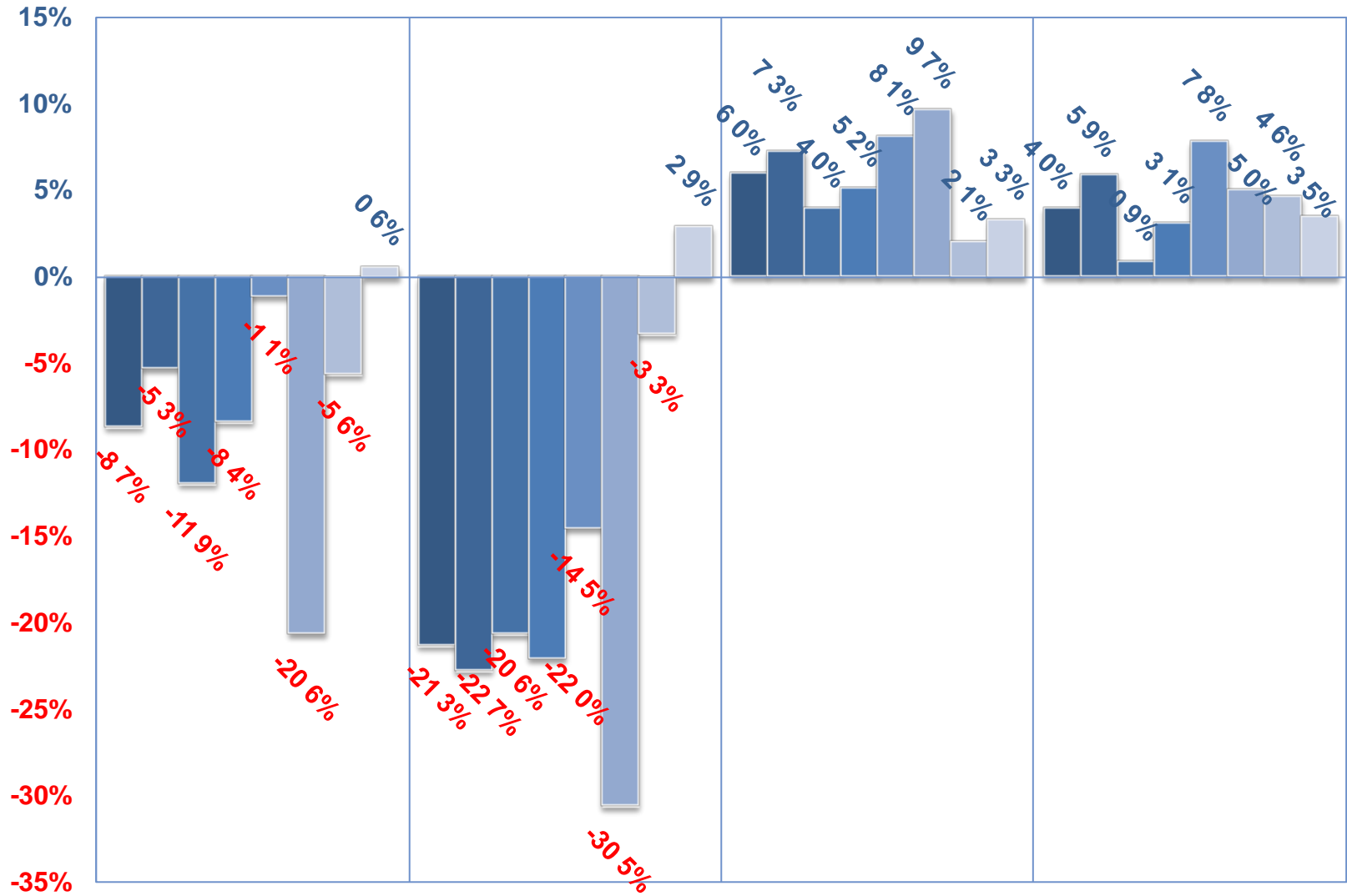
10 Year Returns for the S&P 500



- ▣ Equities are not always the highest return asset class
- ▣ Long horizon investors can wait out periods of underperformance
- ▣ Individuals bear higher risk due to shorter time horizon



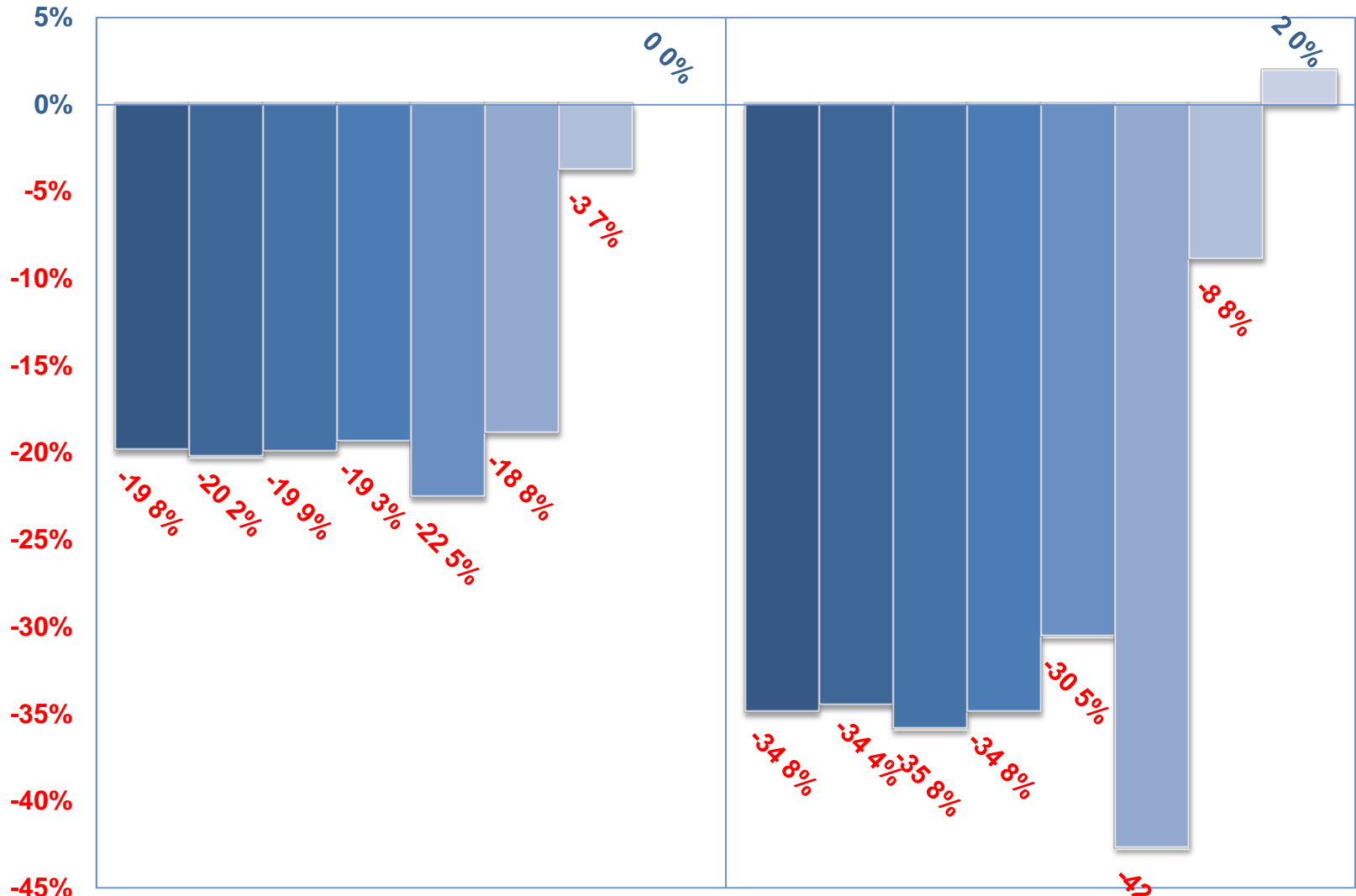
Capital Market Environment – September 30, 2008



- Dow Jones Wilshire 5000
- Russell 3000 Value
- Russell 3000 Growth
- S&P 500
- Russell 2000
- MSCI EAFE
- Lehman Int. Credit
- 90 Day TBill



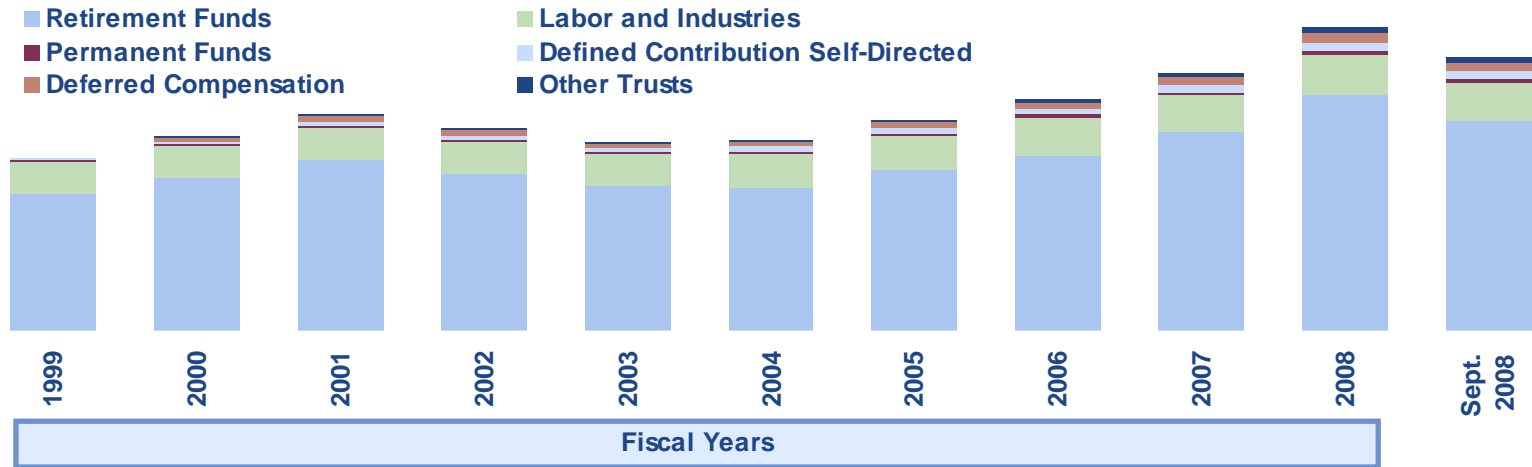
Capital Market Update – Black October (data as of October 17, 2008)



- Dow Jones Wilshire 5000
- Russell 3000 Value
- Russell 3000 Growth
- S&P 500
- Russell 2000
- MSCI EAFE
- Lehman Int. Credit
- 90 Day TBill

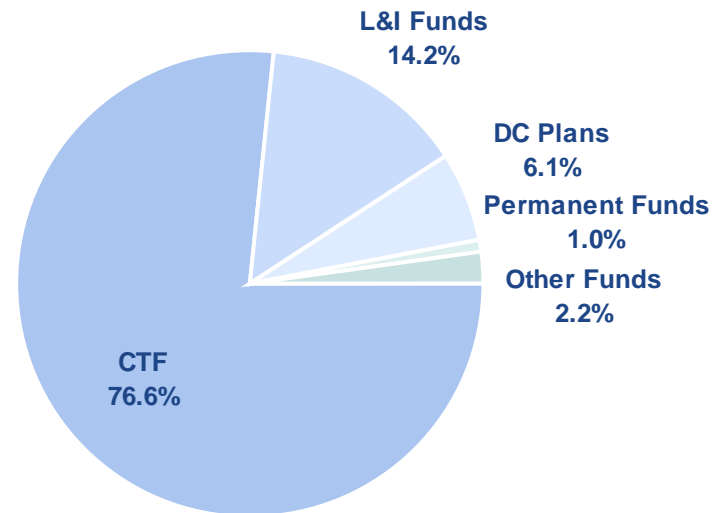
Total Assets Under Management – September 30, 2008

Past 10 Fiscal Years

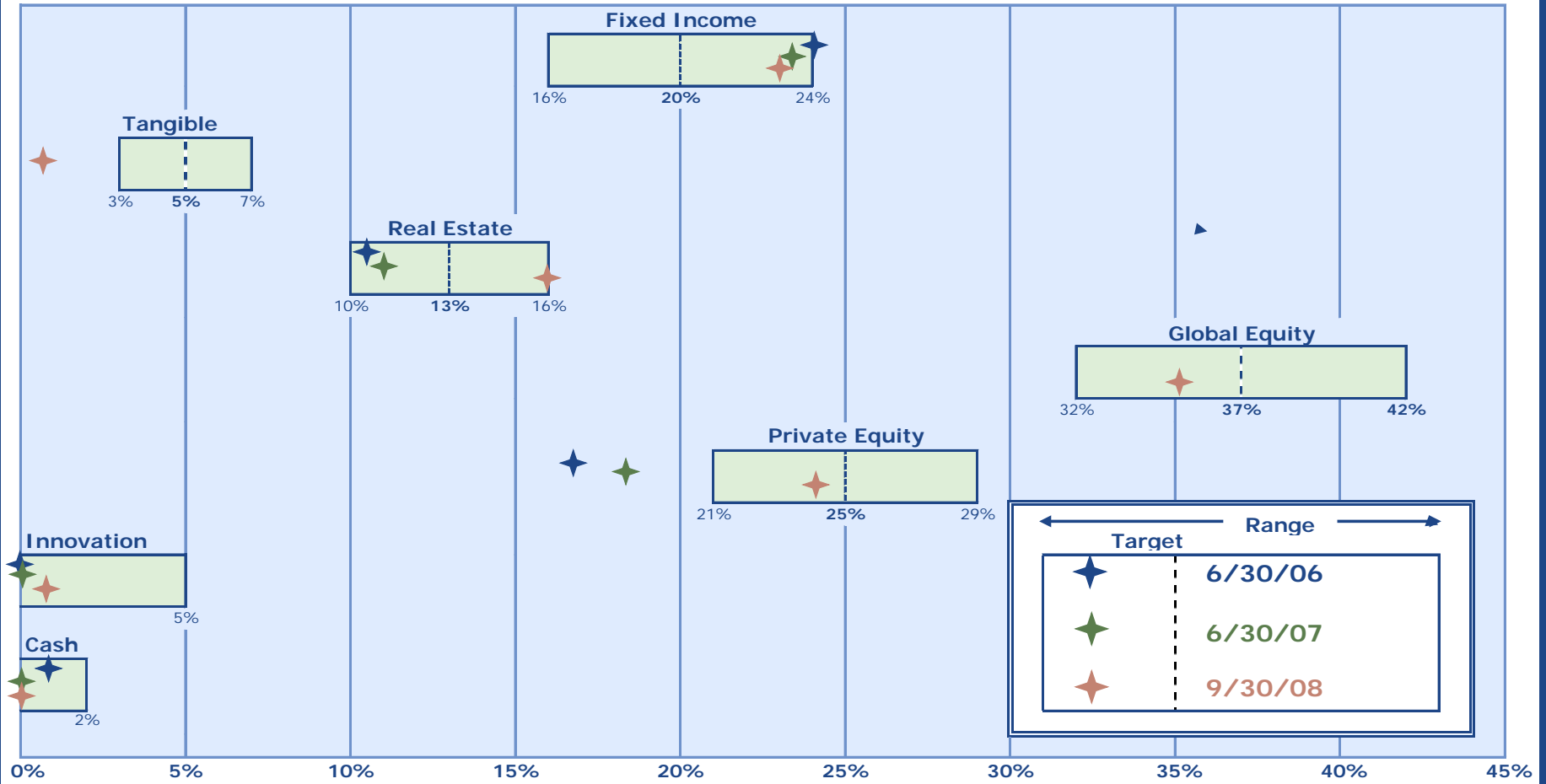


Market Values and Allocation (in billions)

CTF	\$57.0	76.6%
L&I Funds	\$10.6	14.2%
DC Plans	\$4.5	6.1%
Permanent Funds	\$0.8	1.0%
Other Funds	\$1.6	2.2%
Total Assets Under Management	\$74.5	



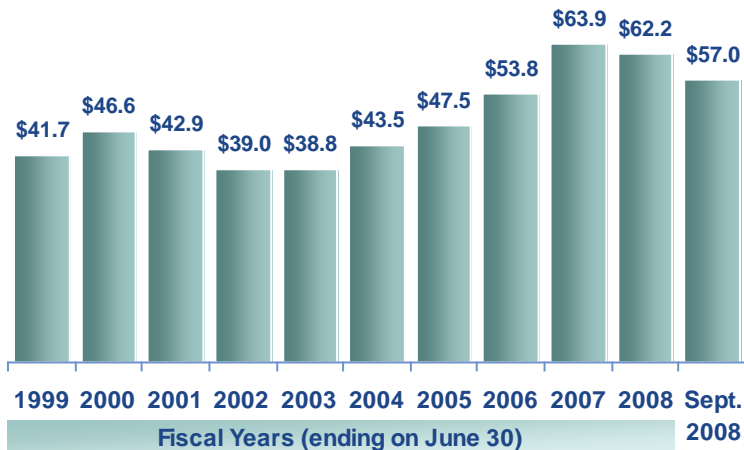
Commingled Trust Fund Strategic Asset Allocation



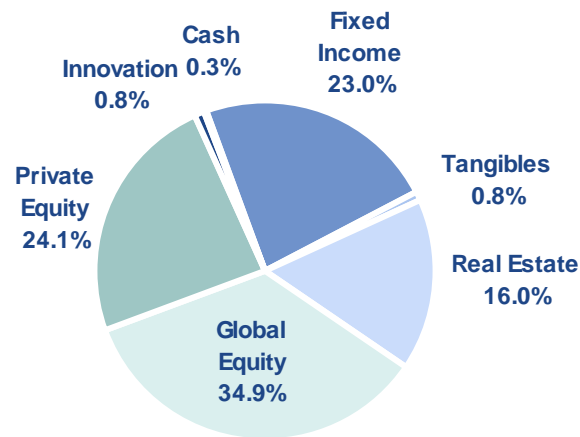
	Target	Range
6/30/06	~13%	10% - 16%
6/30/07	~11%	10% - 16%
9/30/08	~16%	10% - 16%

Commingled Trust Fund Performance & Market Values – September 30, 2008

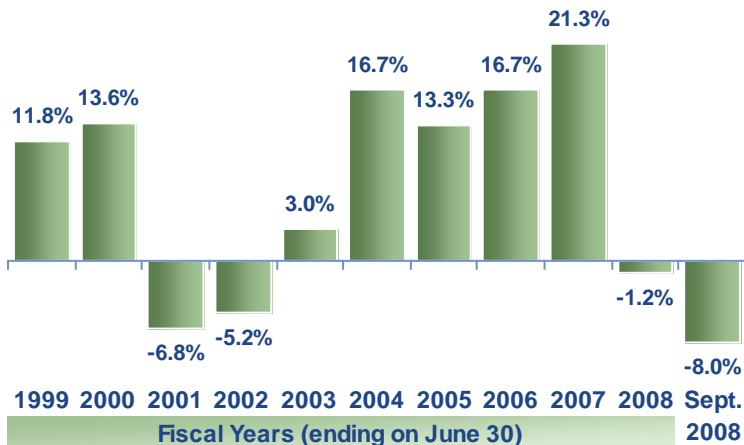
Historical Market Value (billions)



Actual Allocation



Historical Fund Returns



Market Values and Returns – June 30, 2008

Total Commingled Trust Fund (CTF) Retirement Assets: \$57.0 billion

	Market Value (000s)	1 Year	3 Year	5 Year	10 Year
Total CTF	\$57,021,001,986	-12.85%	7.00%	10.37%	7.63%
Fixed Income	\$13,104,659,519	2.60%	4.13%	4.12%	5.67%
Tangibles	\$475,858,710				
Real Estate	\$9,129,935,715	4.78%	18.90%	18.62%	14.96%
Global Equity	\$19,867,838,971	-27.05%	0.98%	7.65%	5.14%
Private Equity	\$13,745,331,192	-8.35%	17.21%	20.34%	14.09%
Innovation	\$462,311,859	-29.28%	N/A	N/A	N/A
Cash	\$152,596,421	3.58%	4.46%	3.29%	3.02%

Plan 3 Performance – September 30, 2008

Equity Funds

	Qtr.	1 Year	3 Year	5 Year	10 Year
U.S. Stock Fund	-8.6%	-21.4%	0.3%	5.8%	N/A
Russell 3000	-8.7%	-21.5%	0.3%	5.7%	3.8%
U.S. Large Stock Fund	-8.3%	-21.9%	0.3%	5.2%	3.1%
S&P 500	-8.4%	-22.0%	0.2%	5.2%	3.1%
U.S. Small Stock Fund	-1.1%	-14.5%	1.8%	8.2%	7.7%
Russell 2000	-1.1%	-14.5%	1.8%	8.1%	7.8%
International Index Fund	-19.2%	-29.2%	1.8%	10.1%	4.7%
MSCI EAFE	-20.6%	-30.5%	1.1%	9.7%	5.0%

Balanced Funds

	Qtr.	1 Year	3 Year	5 Year	10 Year
WSIB TAP Fund	-8.0%	-12.8%	7.0%	10.4%	7.6%
Custom Benchmark	-12.0%	-19.2%	1.7%	6.3%	4.8%
Social Balanced Fund	-4.3%	-5.7%	3.9%	5.5%	N/A
Custom Benchmark	-4.8%	-11.0%	2.1%	4.7%	4.3%
Long-Horizon Fund	-9.5%	-18.0%	2.0%	6.8%	N/A
Custom Benchmark	-10.4%	-19.3%	1.4%	6.4%	4.8%
Mid-Horizon Fund	-7.2%	-11.5%	2.8%	5.9%	N/A
Custom Benchmark	-8.9%	-14.2%	1.7%	5.2%	5.0%
Short-Horizon Fund	-4.4%	-5.0%	3.6%	4.9%	N/A
Custom Benchmark	-6.0%	-7.8%	2.5%	4.2%	4.7%

Bond Funds

	Qtr.	1 Year	3 Year	5 Year	10 Year
Bond Market Fund	-2.6%	2.5%	3.7%	3.4%	N/A
Lehman Intermediate Credit	-5.6%	-3.3%	1.6%	2.1%	4.6%

Cash Funds

	Qtr.	1 Year	3 Year	5 Year	10 Year
Money Market Fund	0.6%	3.3%	4.5%	3.5%	3.8%
One Month LIBOR	0.7%	3.5%	4.7%	3.6%	3.8%

* Uses current managers' returns and is after manager and portfolio expenses, but before the WSIB and record keeping fees.

DCP Performance – September 30, 2008

Equity Funds

	Qtr.	1 Year	3 Year	5 Year	10 Year
U.S. Stock Market Index Fund	-8.4%	-21.0%	0.7%	6.1%	4.2%
Dow Jones Wilshire 5000	-8.7%	-21.3%	0.6%	6.0%	4.0%
Active Value Fund	-6.3%	-25.9%	-0.9%	8.0%	N/A
Russell 1000 Value Index	-6.1%	-23.6%	0.1%	7.1%	5.6%
Active Core Fund	-9.5%	-22.3%	-1.0%	N/A	N/A
S&P 500	-8.4%	-22.0%	0.2%	5.2%	3.1%
Growth Company Fund	-18.3%	-22.1%	2.5%	7.2%	6.3%
Russell 3000 Growth	-11.9%	-20.6%	0.2%	4.0%	0.9%
International Stock Fund	-21.9%	-33.0%	0.1%	N/A	N/A
MSCI EAFE	-20.6%	-30.5%	1.1%	9.7%	5.0%
U.S. Small Stock Fund	-1.1%	-14.5%	1.8%	8.2%	7.7%
Russell 2000	-1.1%	-14.5%	1.8%	8.1%	7.8%

Balanced Funds

	Qtr.	1 Year	3 Year	5 Year	10 Year
Long-Horizon Fund	-9.5%	-18.0%	2.0%	6.8%	N/A
Custom Benchmark	-10.4%	-19.3%	1.4%	6.4%	4.8%
Mid-Horizon Fund	-7.2%	-11.5%	2.8%	5.9%	N/A
Custom Benchmark	-8.9%	-14.2%	1.7%	5.2%	5.0%
Short-Horizon Fund	-4.4%	-5.0%	3.6%	4.9%	N/A
Custom Benchmark	-6.0%	-7.8%	2.5%	4.2%	4.7%
Social Balanced Fund	-4.3%	-5.7%	3.9%	5.5%	N/A
Custom Benchmark	-4.8%	-11.0%	2.1%	4.7%	4.3%

Bond Funds

	Qtr.	1 Year	3 Year	5 Year	10 Year
Bond Market Fund	-2.6%	2.5%	3.7%	3.4%	N/A
Lehman Int. Credit	-5.6%	-3.3%	1.6%	2.1%	4.6%

Cash Funds

	Qtr.	1 Year	3 Year	5 Year	10 Year
Savings Pool	1.1%	4.7%	4.7%	4.7%	5.5%

*Uses current managers' returns and returns from other portfolios with same investment strategy but different fees to produce a ten-year history. Return shown is after manager and portfolio expenses, but before the WSIB and record keeping fees and does not include any return attributed to rebates.

Concluding Observations



- ❑ The deleveraging of the financial system is not over
- ❑ Returns will revert to long term averages
- ❑ Patience and confidence in our strategies will be tested
- ❑ The virtues of a globally diversified portfolio of high quality assets managed by skilled investors will be revealed
- ❑ Risk management is a priority
- ❑ An 8% return is realistic and challenging

- ❑ Deleveraging of household and financial services firms will create difficult economic conditions in 2009
- ❑ Governments and central banks are demonstrating a total commitment to do whatever it takes to resolve the crisis
- ❑ Confidence in the financial system has been shaken
- ❑ It will take time to recover
- ❑ Time is our ally
- ❑ We will work through these difficulties