

**WASHINGTON STATE INVESTMENT BOARD
ANNUAL UPDATE – 2023
LEOFF 2 BOARD**

DECEMBER 13, 2023

Allyson Tucker, CFA, CAIA
Chief Executive Officer



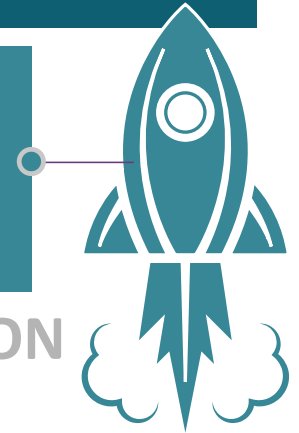
WHO WE ARE

VISION, MISSION, AND VALUES



As a leading institutional investor, we utilize diverse skillsets and perspectives to achieve investment and operational excellence with global and innovative approaches in service to our beneficiaries, state, communities, and one another.

We invest the funds entrusted to us with integrity, care, and skill to maximize return over the long term at a prudent level of risk for the exclusive benefit of beneficiaries.



VALUES

Integrity 

Patience 

Openness 

Belonging 

Excellence 

Service 

Innovation 

WHO WE ARE

GOVERNANCE

- Washington's strategic advantage – established in 1981
- Board comprised of 15 members
 - 10 voting members identified in statute
 - 5 non-voting investment professionals to advise, each selected by the voting members

3 EX-OFFICIO MEMBERS

2 LEGISLATORS

**Tracy
Guerin**
DRS
Director

**Joel
Sacks**
L&I
Director

**Mike
Pellicciotti**
State
Treasurer

**Mark
Mullet**
Member of
the Senate

**Mia
Gregerson**
Member of the House
of Representatives

5 REPRESENTATIVES OF THE PUBLIC EMPLOYEE PENSION SYSTEMS

**Greg
Markley**
Member of
LEOFF (Chair)

**Yona
Makowski**
Retired Member of State
Pension System (Vice-Chair)

**Judy
Kuschel**
Active Member of
PERS

**Sara
Ketelsen**
Member of
TRS

**Liz
Lewis**
Member of
SERS

5 NON-VOTING MEMBERS

**David
Nierenberg**

**Mary
Pugh**

**William A.
Longbrake**


**Ada
Healey**

**George
Zinn**



WHO WE ARE – SIZE, SCOPE, AND SCALE

Asset Management Profile

- 
- **\$188.5 billion in assets under management as of September 30, 2023**
 - **18 pension funds**
 - **5 Labor and Industries funds**
 - **16 permanent and other trust funds**



Global investment program scope and scale

- **93 countries**
- **Across 6 continents and 52 currencies**
- **More than 17,000 investment holdings**
- **130+ external investment managers and partners across five asset classes**

Local organizational size and scale

- **Staffing: 113 employees**
- **Two offices: Headquarters in Olympia and Satellite in Seattle**
- **Hybrid 60/40 workplace plan in place as of September 2022**
- **51 investment professionals**
- **62 financial/accounting professionals and executive/administrative staff**

WHO WE ARE – TRUSTED ORGANIZATION

WSIB INVESTMENT RESPONSIBILITY (39 FUNDS MANAGED)

Retirement Funds

18

- Public Employees' Plans 1, 2, 3
- School Employees' Plans 2, 3
- Teachers' Plans 1, 2, 3
- Law Enforcement Officers' and Firefighters' Plans 1, 2
- Judicial Retirement Account – Defined Contribution
- Washington State Patrol Plans 1, 2
- Deferred Compensation Program
- Public Service Employees' Plan 2
- Higher Education Retirement Plan Supplemental Benefit
- Volunteer Firefighters' and Reserve Officers' Relief and Pension (VFFRO)

Labor & Industries' Funds

5

- Accident
- Medical Aid
- Pension Reserve
- Supplemental Pension
- Industrial Insurance Rainy Day (unfunded)

Permanent Funds

7

- Agricultural College
- Common School
- Normal School
- Scientific
- State University
- American Indian Endowed Scholarship
- Foster Care Endowed Scholarship (unfunded)

Other Funds

9

- Guaranteed Education Tuition
- Developmental Disabilities Endowment (private and state)
- Washington State Opportunity Scholarship (Scholarship, Endowment, Tech Pathway, and Degree Pathway)
- Long-Term Services and Support (unfunded)
- Dan Thompson Memorial

WHO WE ARE – WSIB HAS SCALE ADVANTAGE

SEPTEMBER 30, 2023

■ DB plans and hybrid DB/DC plans commingled into one investment fund (CTF) run by the WSIB

Defined Benefit and Hybrid Defined Benefit/Defined Contribution Plans	Market Value
Public Employees' Retirement System Plan 1 (PERS)	\$8,914,897,780
Public Employees' Retirement System Plan 2/3	\$64,068,044,490
Teachers' Retirement System Plan 1 (TRS)	\$7,010,032,123
Teachers' Retirement System Plan 2/3	\$32,461,570,745
Washington State Patrol Retirement System Plan 1 (WSPRS)	\$1,525,131,231
Washington State Patrol Retirement System Plan 2	\$227,961,233
Law Enforcement Officers' & Fire Fighters' Plan 1 (LEOFF)	\$6,675,863,433
Law Enforcement Officers' & Fire Fighters' Plan 2	\$20,267,331,884
School Employees' Retirement System Plan 2/3 (SERS)	\$11,232,206,581
Public Safety Employees' Retirement System Plan 2 (PSERS)	\$1,442,056,600
Higher Education Supplemental Insurance Plan	\$184,266,708
Target Date Funds (TDF)	\$1,371,076,027
Total	\$155,380,438,833

Retirement Plan(s) Outside the CTF	Market Value
Volunteer Fire Fighters' and Relief Officers' Pension Fund (VFFRO)	\$223,539,739
Total	\$223,539,739

Defined Contribution Plans (Less TDF money that is in the CTF)	Market Value
Plans 3 Outside of the CTF (TAP)	\$6,175,796,928
Deferred Compensation Program (DCP)	\$5,449,823,691
Judicial Retirement Account (JRA)	\$7,126,439
Total	\$11,632,747,058

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

Private Equity

- Well diversified by fund, general partner, geography, strategy sub-sector, industry, vintage year
- 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

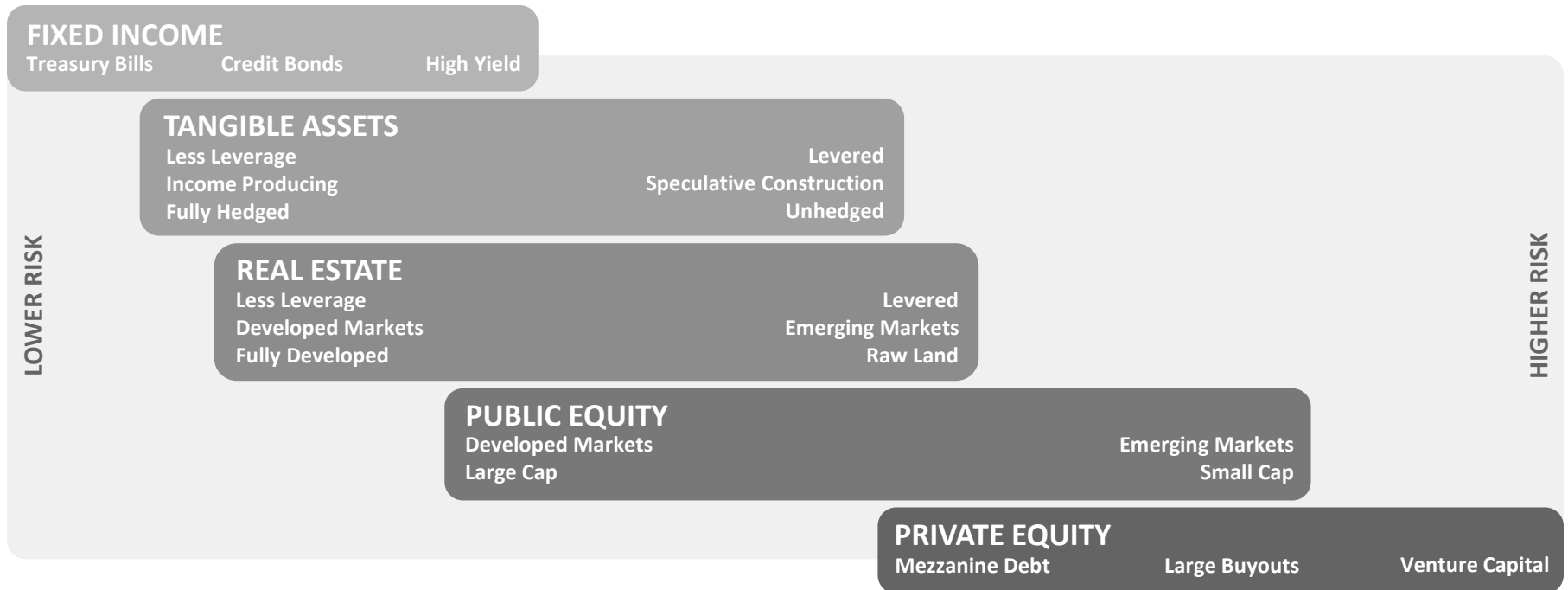
- Broadly diversified across multiple investment partners, property types, and geographies
- Direct stake in hundreds of properties in a diversity of markets
- Assets weighted toward long term, income producing, lower leverage, and necessity-based

Tangible Assets

- Physical assets used in the production or supply of goods and services
- Focus on upstream and midstream segments in four main industries: Minerals and Mining, Energy, Agriculture, and Society Essentials
- Strong focus on fundamental human needs – agriculture, energy, and social essentials

WHAT WE DO – MARKET RISK SPECTRUM

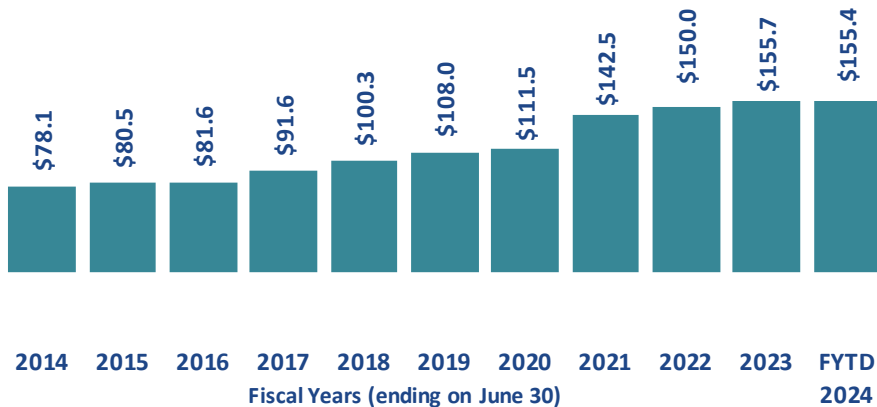
- WSIB seeks diversification across the portfolio and within each asset class
- Implementation within each asset class will determine how risk is concentrated
- Weight of each asset class must match risk profile



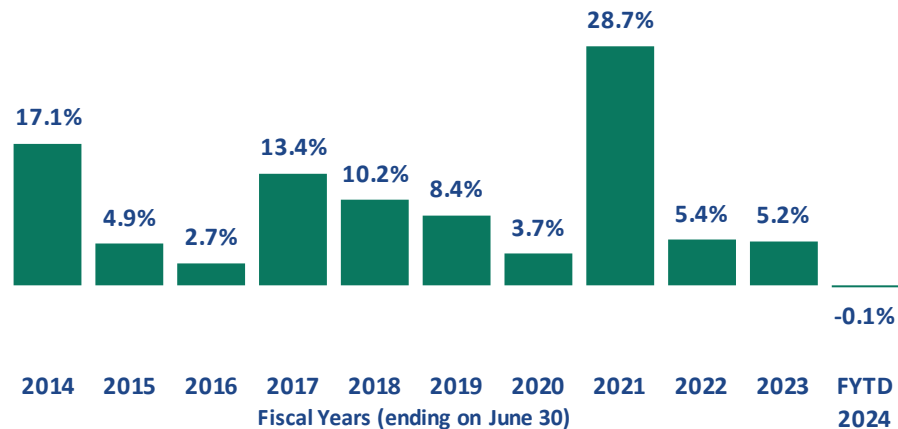
HOW WE HAVE PERFORMED – OUR RESULTS

COMMINGLED TRUST FUND (CTF) PERFORMANCE AND MARKET VALUES (SEPTEMBER 30, 2023)

Historical Market Value (\$ Billions)

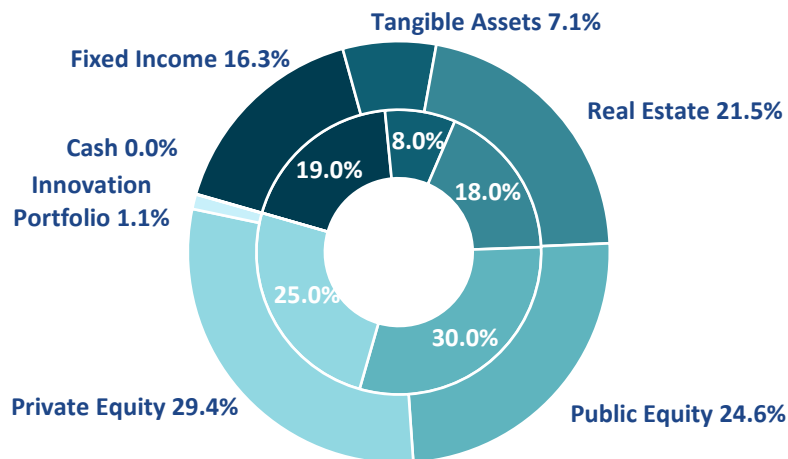


Historical Fund Returns



Asset Allocation

Outer Circle – Actual, Inner Circle – Long-Term Target



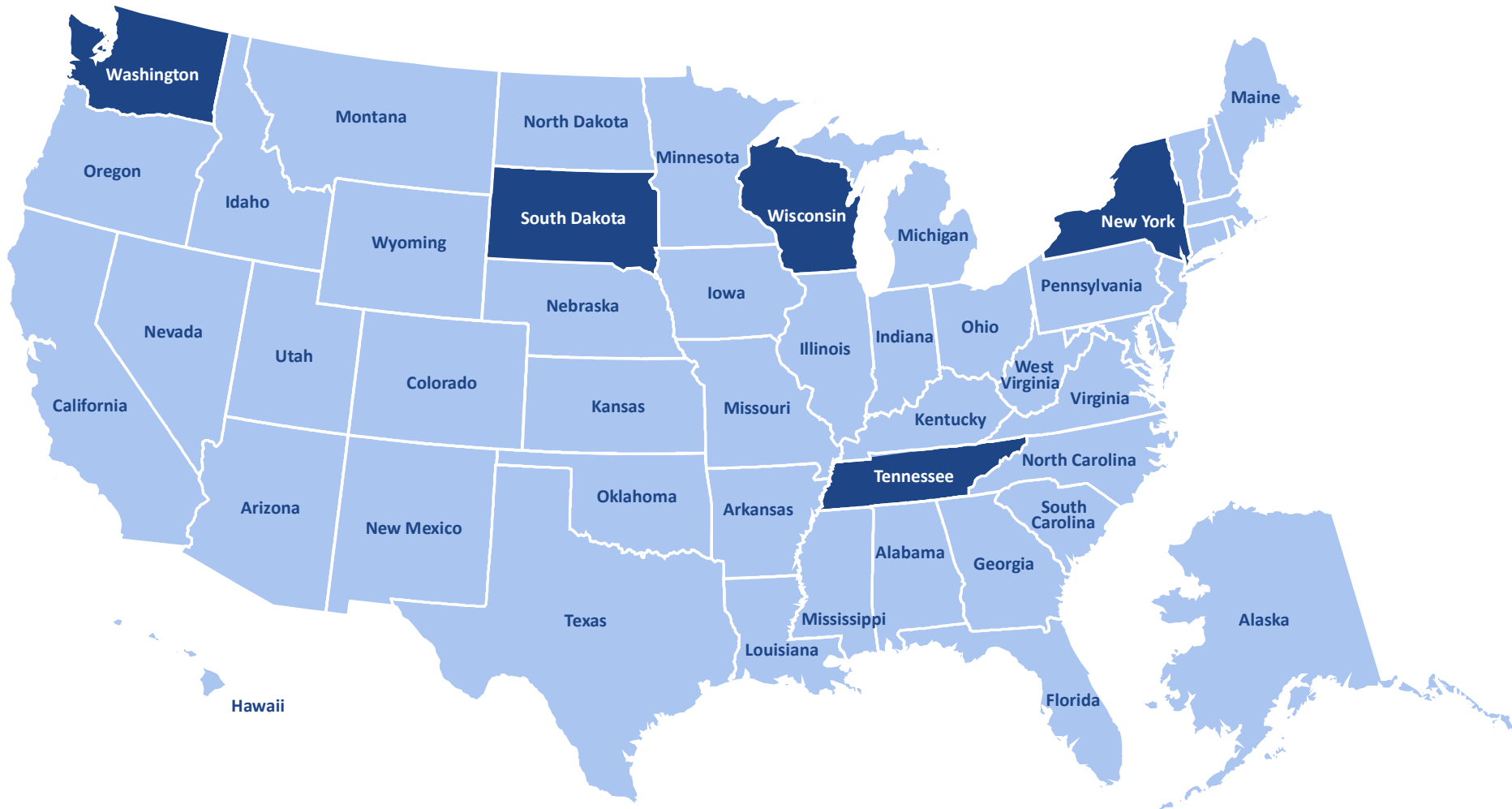
Market Values and Returns

Commingled Trust Fund (CTF)	1 Year	3 Year	5 Year	10 Year	20 Year	
Total CTF	\$155.4 B	8.7%	10.5%	9.4%	9.2%	8.8%
Fixed Income	\$23.2 B	3.7%	-3.8%	1.4%	2.0%	3.8%
Tangible Assets	\$11.1 B	7.8%	11.3%	7.4%	6.4%	N/A
Real Estate	\$33.4 B	3.6%	19.4%	15.4%	13.7%	11.5%
Public Equity	\$38.4 B	21.9%	7.6%	6.5%	8.0%	8.0%
Private Equity	\$45.7 B	4.8%	18.5%	14.5%	14.2%	14.0%
Innovation Portfolio	\$1.7 B	8.3%	14.3%	12.0%	-1.4%	N/A
Cash	\$1.9 B	4.9%	1.9%	1.8%	1.3%	1.5%

WASHINGTON'S AND WSIB'S RESULTS AND REPUTATION

ONE OF THE BEST FUNDED PENSION SYSTEMS IN THE NATION

Top 5 Funded States



Historical Performance is...Historical
We are experiencing a sea change
in both the investment landscape
and the workplace

Market Conditions are Rapidly Evolving

Interest rates declined for 40 years, equity markets delivered a long, sustained run of strong returns, and inflation had been held at bay

Value Will be Tougher to Deliver

Forward expectations for returns are lower than historical returns experienced

Board Turnover

This cannot always be anticipated and could accelerate within a few years

External Interest

Pressures across the pension industry bring heightened risks, especially related to environmental, social, and governance (ESG) factors in investing

Pandemic Conditions

They have persisted longer than forecast, and hybrid working arrangements come with a unique set of challenges

Staff Changes

The combination of planned retirements, unplanned resignations, and new recruitments may challenge the effectiveness of our organization

EXTERNAL FACTORS THAT IMPACT THE WSIB

- Financial Markets
- Geopolitical Events
- Demographics
- Financial Regulation
- Labor Market
- Interest Rates
- Monetary Policy
- GDP Growth
- Exchange Rates
- Inflation Rates
- Behavior of Investors
- International Trade
- Accounting Standards

STATE-CONTROLLED FACTORS THAT INFLUENCE THE WSIB

- WSIB Budget
- Salary Ranges
- Number of FTEs
- Level of Benefits
- Contribution Rates
- Actuarial Assumptions
- Investment Directives
- Retirement Plans Offered
- Legislative Priorities
- Appointment of Voting Board Members
- Chief Executive Officer Confirmation

INTERNAL FACTORS THAT WSIB CAN CONTROL OR INFLUENCE

- Non-Voting Board Member Selection
- Chief Executive Officer Appointment
- Effective Board Governance
- Investment Strategy
- Asset Allocation
- Organizational Structure
- Staff Selection
- Manager Selection
- Employee Workplace Experience

Implementing Board-approved Climate and Diversity, Equity, and Inclusion (DEI) Blueprints

- **Climate:** a guiding roadmap to help navigate climate risk within investment process
- **DEI:** keep building accountability both internally and externally
- **Environmental, social, and governance (ESG) factors** are viewed through fiduciary lens and investment outcomes

Embedding the agency's new Vision, Mission and Values statements into practice

Managing transition risk at staff and Board with a focus on growth through education and career development opportunities

Transitioning to a new custodian bank (Bank of New York Mellon)

Continuing disciplined approach amid multiple market uncertainties

- **Prudent investment process:** capital market assumptions, asset allocation studies, transactions, and innovation
- **Strong partnerships:** Investment and Operations Partners, Office of the State Actuary, Department of Retirement Systems, Office of Financial Management, Office of the State Treasurer, Attorney General's Office
- **Service to stakeholders,** including several governing bodies of trust funds

IN SUMMARY

Fulfillment of mission and fiduciary duty will remain front and center:

“The Board shall establish investment policies and procedures designed exclusively to maximize return at a prudent level of risk.” (RCW 43.33A.110)

The WSIB has many strengths yet cannot afford to be complacent in a complex world

- We always remain focused on:
 - Delivering and sustaining value by generating exceptional long-term results
 - Ensuring that we are adequately resourced to support complex investment program, asset growth, and productivity improvements
 - Building and maintaining support for our mission, including public confidence