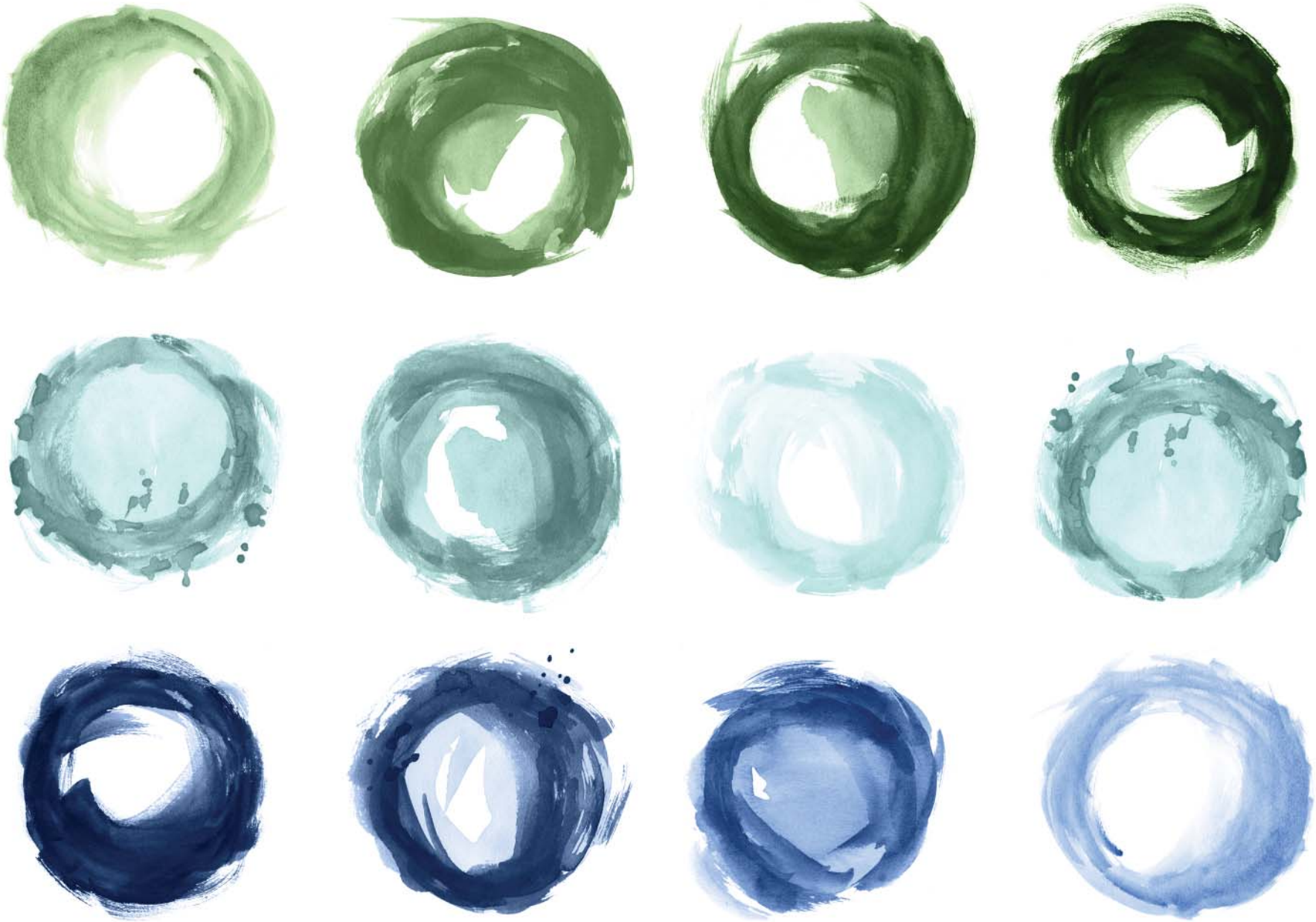
WASHINGTON STATE INVESTMENT BOARD



THIRTY-FOURTH ANNUAL REPORT OVERVIEW • TWO-THOUSAND AND FIFTEEN

INTRODUCTION

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LETTER OF TRANSMITTAL

This past year has been a stark reminder that we operate in a global economy. The debt crisis in Greece and other European countries left investors nervous and cautious. Falling oil prices and the on-going debate over whether and/or when the Federal Reserve will take the lid off interest rates has created concern not only among U.S. investors, but our European partners as well. Like the wild fires that also took their toll this summer, even a small gust of wind was enough to reignite smoldering embers.

But for better or worse, risk and reward are intrinsically linked. For the Washington State Investment Board, it's not so much a question of whether we accept a certain amount of risk, but more importantly how we manage that risk. One of the most important ways we manage risk is by diversification in our alternative asset classes. The WSIB has been investing in private equity and real estate since the early 80's. Our private equity portfolio is well diversified by fund, by general partner, by geography and by industry. Our real estate portfolio is very broadly diversified in many hundreds of properties in a lot of markets that act differently.

It's important when building a diversified portfolio that you have asset returns that move in different directions. This help to offset the impact of poor market performance. Rebalancing is the key to maintaining risk levels over time. We continuously review and rebalance our asset balances as appropriate and the strategic asset allocations are reviewed at least every four years. This ensures that the asset mix is within the appropriate risk levels. The WSIB's long-term, diversified investment strategy has made Washington's public pension fund among the top 10 best performing pension funds in the nation.

While the money we earn for the retirement funds makes up the lion's share of our assets under management and attracts the most attention, the WSIB has other equally important investment responsibilities. We also manage Labor and Industries' Funds ($14.7 billion) to help the state meet its financial obligations to injured workers and their employers, the Guaranteed Education Trust (GET) Fund ($2.7 billion) that was created to invest money received from the sale of pre-paid college tuition credits to offset the future cost of a college education, the Developmental Disabilities Endowment Fund ($49 million) which was created as a means to support families as they plan for the long-term care needs of individuals with disabilities, and what are called the Permanent Funds ($983.4 million), the majority of which was established through land grants from the federal government to benefit Washington schools, colleges and universities. We also were given investment responsibility for a new fund this year, the Washington State Opportunity Scholarship (WSOS) Fund ($43.8 million) which was created by the Washington State Legislature to encourage student participation in high employer-demand programs of study.

I am extremely proud of the WSIB and its many accomplishments. In the end, it is the strong and capable Board and the highly professional staff that have earned the WSIB the reputation and success it enjoys. This report describes in detail all of our portfolios, performance, operations and finance. I am proud to note that whether the economic outlook is rosy or cloudy, the WSIB continues to not only meet, but exceed the high standards our beneficiaries expect and deserve.

Sincerely,

Theresa Whitmarsh, Executive Director

MESSAGE FROM THE CHAIR

Throughout its 34-year history, the Washington State Investment Board (WSIB) has continued to deliver excellent investment performance and impeccable accountability. Washingtonians should expect and deserve nothing less from an organization entrusted to manage billions of dollars of pension and other public fund assets that serve to benefit thousands of people statewide.

Everyone who works for the WSIB or serves on its 15-member, independent Board of Trustees fully recognizes our fiduciary duty to prudently manage investments for the exclusive benefit of the more than 467,000 members, retirees and beneficiaries in the state's retirement systems. These are the people who devote their lives to serving the public, educating our children, maintaining our schools, fighting fires, enforcing the law, caring for the disabled, protecting the environment, and supporting our colleges and universities. We are proud of their achievements and it's an honor to play a significant role in helping them build a more financially secure future.

Retirement benefits earned by Washington's public employees result in approximately $3.2 billion in payments each year (about $270 million per month), most of which is distributed in the state of Washington. It's worth noting that returns from investments managed by the WSIB account for 84 cents of every dollar paid out in pension benefits. Investment earnings also pay for the 2.58 million workers covered under the state Department of Labor & Industries' workers' compensation program. Last year, benefits paid to injured workers totaled $2.13 billion.

The WSIB ended fiscal year 2015 with $107 billion in total assets under management, the majority of that being the $81.7 billion Commingled Trust Fund (CTF) portfolio for the state's defined benefit retirement systems. The three-, five-, and 10-year return rates for the CTF were 11.34 percent, 11.13 percent, and 7.55 percent respectively. The rate of return since inception is 8.80 percent. This is one of the best performance records compared to any other public pension fund in the country, and contributes to Washington's position as one of the top 10 best funded pension systems in the nation.

Looking to the future, the WSIB will continue to invest prudently, approach complex market and geo-political challenges with responsible, thoughtful solutions, and pursue new opportunities to strengthen and protect all fund investments to the greatest extent possible.

In closing, I want to thank our beneficiaries and participants for their continued support and trust, and the entire Board and staff of the WSIB for their contributions throughout the year. In the following pages, we are pleased to present for your review the WSIB's Annual Report for the fiscal year ending June 30, 2015.

Sincerely,
Marcie Frost, Chair

BOARD MEMBERS AND COMMITTEES

The WSIB is an independent Board of Trustees whose fiduciary responsibility is to manage retirement and public fund investments with the highest standard of professional conduct. The Board's primary investment objective is to maximize returns at a prudent level of risk for the exclusive benefit of fund participants and beneficiaries. Individual Board members are recommended by the Chair and appointed by the Board to serve on any of the Board's four different committees to more efficiently analyze investment and governance issues. Committee recommendations are brought to the Board for consideration and a vote.

Administrative Committee

The Administrative Committee has oversight of general policy and organizational issues: personnel, budget, legislative program; legal services; nomination of non-voting Board members, and other issues not included in other committee charters.

Audit Committee

The Audit Committee has oversight of audits of Board activities and operations: compliance, risk management, internal/external audits, financial reporting, and internal controls. It is also responsible for development of policies and procedures for corporate governance and oversight of the Conflict of Interest Policy.

Private Markets Committee

The Private Markets Committee develops strategy, provides oversight, and makes recommendations to the Board for investments in real estate, private equity, tangible assets, and other direct or private transactions.

Public Markets Committee

The Public Markets Committee develops strategy, provides oversight, and makes recommendations to the Board for public markets investments, including the Labor & Industries (L&I) portfolio, fixed income, and equity portfolios.

Treasurer
James L. McIntire

Marcie Frost
Chair

Joel Sacks

Kelly Fox
Vice-Chair

Judy Kuschel

George Masten

Stephen Miller

Arlista D. Holman

Representative
Timm Ormsby

Senator
Mike Hewitt

Robert S.
Nakahara, C.P.A.

Jeffrey T. Seely

David
Nierenberg

William A.
Longbrake

Richard
Muhlebach

EXECUTIVE MANAGEMENT AND CONSULTANTS

Theresa J. Whitmarsh – Executive Director

Appointed in 2009

The WSIB's executive director is appointed by the Board to oversee the staff, develop and recommend agency and investment policies for Board adoption, and ensure adherence to state policies and laws.

Gary Bruebaker, CFA, CPA – Chief Investment Officer

Appointed in 2001

The Investment Division is comprised of investment professionals who manage investments in major asset classes including public equity, private equity, real estate, fixed income, and tangible assets. The division is also served by a senior investment officer who develops asset allocation and risk budgeting strategies. The division deploys both internal and external investment management strategies.

Victor Moore – Chief Operating Officer/Chief Financial Officer

Appointed in 2010

The Operations Division provides a number of services in support of the investment function, including investment accounting, trade settlement, cash management, private market funding, cash and stock distributions, foreign and domestic tax matters, and investment compliance monitoring. It provides agency-wide risk management, information systems management, human resources, and administrative services.

Liz Mendizabal – Institutional Relations Director

Appointed in 2003

Institutional Relations manages duties typically found in a public affairs and client services division of an investment management agency. These services include performance reporting, annual report preparation, corporate governance, legislative issues, media inquiries, constituent communications, and stakeholder relations.

Investment Accounting Data System

Financial Control Systems

Master Custodian Bank

State Street Bank

Insurance Portfolio Consultant

Conning Asset Management

Private Equity, Real Estate, & Tangibles Consultant

Hamilton Lane Advisors, LLC, Courtland Partners, Ltd.

Consultants and Service Providers

Cerium Networkds Inc.	McLagan
CliftonLarsonAllen LLP	Meketa Investment Group, Inc.
Duff & Phelps, LLC	Mercer Investment Consulting, Inc.
EFL Associates of Colorado, Inc.	MSCI Inc.
Glass, Lewis & Co.	Peterson Sullivan LLP
Kamakura Corp.	Real Asset Portfolio Mgmt. LLC
KPM & Associates	Squar, Milner, Peterson, Miranda & Williamson, LLP
LP Capital Advisors	TorreyCove Capital Partners
Macias Gini & O'Connell LLP	Tunlaw Partners LLC
Eide Bailly LLP	Moss Adams LLP
Myers and Stauffer LC	Intrinium Networks/IT Security

CTF PARTNERS & FUND MANAGERS

Private Equity Partners

Accel Partners
Actis
Advent International
Affinity Equity Partners
Alta Communications
Ampersand Ventures
Apax Partners
Apex Investment Partners
Austin Ventures
Avenue Capital Group
Banc Funds
Battery Ventures
BC Partners
Blackstone Group
Boston Ventures
Bridgepoint Capital
Butler Capital Partners
Canaan Partners
Capital Resource Partners
CDH Investments
Charterhouse Capital Partners
Cinven Ltd.
Clayton Dubilier & Rice
Code, Hennessy & Simmons
Collinson, Howe and Lennox
Cypress Group
Denham Capital
Doughty Hanson & Co.
Edgewater Funds
EIG Global Energy Partners
El Dorado Ventures
Elevation Partners
Endeavour Capital
Essex Woodlands
Evercore Capital Partners
First Reserve Corp.
Evergreen Pacific Partners
Fisher Lynch Capital
Fortress Investment Group
FountainVest Partners
Francisco Partners
Frazier & Co.
Friedman Fleischer & Lowe
GGV Capital
GI Partners
Gilbert Global Equity Partners
Great Hill Partners
Gryphon Investors
GTCR
H.I.G. Ventures
HarbourVest Partners
Healthcare Ventures
Hellman & Friedman
Indigo Capital Partners
Insight Venture Partners
Intersouth Partners
JMI Equity
Kohlberg Kravis Roberts & Co.
KSL Capital Partners
Leonard Green & Partners
M/C Venture Partners
Madison Dearborn Partners
MatlinPatterson Global Advisors
Menlo Ventures
Mobius Venture Capital
Morgan Stanley Venture Partners
New Enterprise Associates
Nordic Capital
Oaktree Capital Mgmt.
Oak Investment Partners
OVP Venture Partners
Palamon Capital Partners
Permira
Polaris Venture Partners
Providence Equity Partners
Roark Capital Group
Rhone Capital
Silver Lake Partners
Southern Cross Group
Spark Mgmt. Partners
Sprout Group
TA Associates
Tailwind Capital Partners
Technology Crossover Ventures
The Riverside Company
Three Arch Partners
TowerBrook Capital Partners
TPG Partners
Trident Capital Partners
Triton Partners
U.S. Venture Partners
Union Square Ventures
Unitas Capital
VantagePoint Venture Partners
Vestar Capital Partners
Vision Capital
Vivo Ventures
Warburg Pincus
Welsh Carson Anderson & Stowe
Worldview Technology Partners

Real Estate Partners

Aevitas Property Partners
Alere Property Group
Calzada Capital Partners
Cherokee
Emerging Markets Fund of Funds
Evergreen Investment Advisors
Fillmore Capital Partners
Global Co-Investment
Hemisferio Sul
Hudson Advisors
Morgan Stanley
Pacific Realty
Principal Enterprise Capital
Proprium
Warburg Pincus
Washington Holdings

Tangibles Partners

Agriculture Capital Management
Alinda Capital Partners
Campbell Global
EnerVest, Ltd
Fortress Investment Group
Global Infrastructure Partners
Highstar Capital
International Farming Corporation
Lime Rock Resource
Orion Resource Partners
Prostar Capital
Reservoir Resource Partners
Sheridan Production Partners
Stonepeak Advisors
UBS AgriVest
Wood Creek Capital Mgmt.

Overlay Manager

State Street Global Advisors

Public Equity Fund Managers

Aberdeen Asset Mgmt. PLC
Arrowstreet Capital, L.P.
BlackRock Institutional Trust Co.
DE Shaw Investment Mgmt.
Brandes Investment Partners
AQR Capital Management
Lazard Asset Mgmt. LLC
Longview
Magellan Asset Mgmt. Ltd.
Mondrian Investment Partners Ltd
State Street Global Advisors
Wentworth, Hauser & Violich
William Blair & Co.

CORPORATE GOVERNANCE

The WSIB believes a strong, focused corporate governance program is an important part of managing and protecting pension fund assets. Through active support of corporate governance measures and prudent voting of company proxies, the WSIB works to enhance shareowner value and support our long-term investment objectives.

Good corporate governance is a system of checks and balances that fosters transparency, responsibility, accountability and market integrity. A growing body of research provides empirical support for good governance practices. A number of studies demonstrate that companies with strong corporate governance tend to have lower risk of fraud and higher returns.

For the most part, 2014 was a relatively calm year in the board room. The number of directors who failed to receive majority support continued to decline and shareholders once again overwhelmingly supported executive compensation programs at public companies. The high level of support for corporate pay plans is partially the result of a greater effort by corporate boards and management to engage with shareholders regarding compensation concerns. Companies that engaged successfully managed to greatly improve their voting outcomes compared with the previous year.

For companies that received 70 percent or less shareholder approval of their compensation plans, pay-for-performance and outsized pay to CEOs were the most common reasons for negative votes. Of the 2,061 say-on-pay proposals on the ballot between July 1, 2014 and June 30, 2015, the WSIB said “no” to 304 plans.

Proxy access was the big story for the 2015 proxy voting season. During the 2015 proxy season, 85 shareholder proposals seeking to nominate candidates for board seats were on the ballot compared to only 14 proposals in 2014. On average, proxy access shareholder proposals received 54.4 percent support and almost half of the proposals received majority shareholder support.

There were also more shareholder proposals on environmental issues, primarily related to climate change and sustainability reporting. There was a 25 percent increase in the number of environmental shareholder proposals in 2015 compared to 2014, many of which received significant shareholder support.

The WSIB believes that in order to maximize investment returns we must maintain vigilant oversight of the way companies in which we invest are managed. As a long-term investor, the WSIB doesn’t have the option of selling its shares if it doesn’t like the way a company is performing. Therefore, active participation is a necessity.

Between July 1, 2014-June 30, 2015 the WSIB voted 3,180 proxy ballots. Proxy votes were cast on 28,270 individual proposals dealing primarily with election of directors, ratification of auditor, compensation plans, and shareowner proposals.

Of the total director votes during that time period, the WSIB withheld – or voted against – 1,628 incumbent directors, largely because of lack of board independence or unreasonably generous compensation practices. The WSIB’s policy states that “Executive compensation should be linked directly with performance of the business the executive is charged with managing.”

In line with that commitment, the WSIB:

- Voted against 11 percent of the compensation plans proposed.
- Voted against 273 compensation committee members for paying excessive compensation.

As one of the country’s largest institutional investors, the WSIB believes the proxy voting ballot is one of the most effective ways to influence greater board accountability and transparency.

ENTERPRISE RISK MANAGEMENT

Framework

A cornerstone of a successful investment strategy is effective risk management. Enterprise Risk Management (ERM) is intended to cover risk management in the broadest possible terms, encompassing all forms of risk management activity across the entire agency. The WSIB's enterprise-wide approach to risk management includes involvement of the Board, executive management, audit, operational, legal, and investment staff. Risks are seen as opportunities for success as well as failure. The risks the WSIB face arise from both managing the assets and managing the organization. While the WSIB tries to anticipate every risk that it faces, unknown and unprecedented events will occur. The ERM program provides a framework to evaluate and manage uncertainty and rare events.

Managing the Assets

Risks arise from the deployment of the assets under management in a fiercely competitive environment. This investment needs to comply with the standards that a prudent investor would use to manage the assets of others, as well as with the laws of the state of Washington and Board investment policies. The WSIB has identified two primary risks for managing assets, fiduciary and investment risk.

- Fiduciary Risk – This is the risk of acting and making decisions for reasons other than the benefit of constituents. The WSIB is a fiduciary whose mission is to manage investments for retirement and public trust funds "with the highest standard of professional conduct for the exclusive benefit of fund beneficiaries." To manage this risk, the WSIB has an independent Board, retains the services of legal fiduciary counsel, and complies with state ethics laws. Our code of conduct and conflict of interest procedures, established for both the Board and staff, ensures that our values and expectations are understood and integrated throughout the Board and agency at all times. The Board has established investment policies and procedures designed exclusively to maximize return at a prudent level of risk.
- Investment Risk – Investment risks encompass all potential risks resulting from deployment of assets into various investment strategies. Investment risks include volatility risk, interest rate risk, security pricing risk, liquidity risk, and currency risk, and may stem from changes in political, economic, demographic, and technological factors. The WSIB seeks to manage the overall level of investment risk and uncertainty by broadly diversifying across asset classes, investment managers, sectors, strategies, and geographies. The WSIB seeks to evaluate these risks both in normal and worst case scenario environments. Investment risk can also result from not responding as markets change or failing to recognize the emergence of new markets. It can also result from deviating from long-term investment strategy during short term market downturns. By managing the agency's strategic and operational risks, and also by fostering a strong ERM program that enables proactive decision making, the WSIB aims to make informed choices about the investment risk it faces.

Managing the Organization

These risks stem from building and maintaining an organization that is best suited to managing this investment effort. Our organization must operate within a governmental framework while implementing investment management strategies that are more closely aligned with private investment entities. WSIB has identified three risks under this theme, strategic risk, governmental environment risk, and operational risk.

- Strategic Risk – This is the risk of not being prepared to make the decisions necessary for meeting the needs of constituents. To manage this risk, we strive to have effective Board governance, the appropriate organizational structure for our mission, capable leadership, and an established strategic planning process. Our organizational structure includes an internal audit department, an enterprise-wide risk management team, and a business coordination group.
- Governmental Environment Risk – This is the risk of not continuously understanding, anticipating, and responding to changes in our environment. The WSIB is a state agency operating under a government framework within a political environment that is not always aligned with the practices and priorities of investment entities. To help manage this, the executive director and our institutional relations director work to monitor actual or proposed legislative changes that may affect our ability to accomplish our mission.
- Operational Risk – Operational risk refers to losses that could arise from shortcomings or failures in internal processes, people, or systems, or from failures of external processes, people, or systems that the WSIB depends on. We manage this risk through continuous improvements of our control structure; training, supervision and development of our staff; and the commitment of executive management to mitigate key operational risks identified by the ERM team. To foster organizational growth and change, management has committed to creating an environment where staff continues to learn and to institute state of the art practices.

Safeguarding Our Reputation

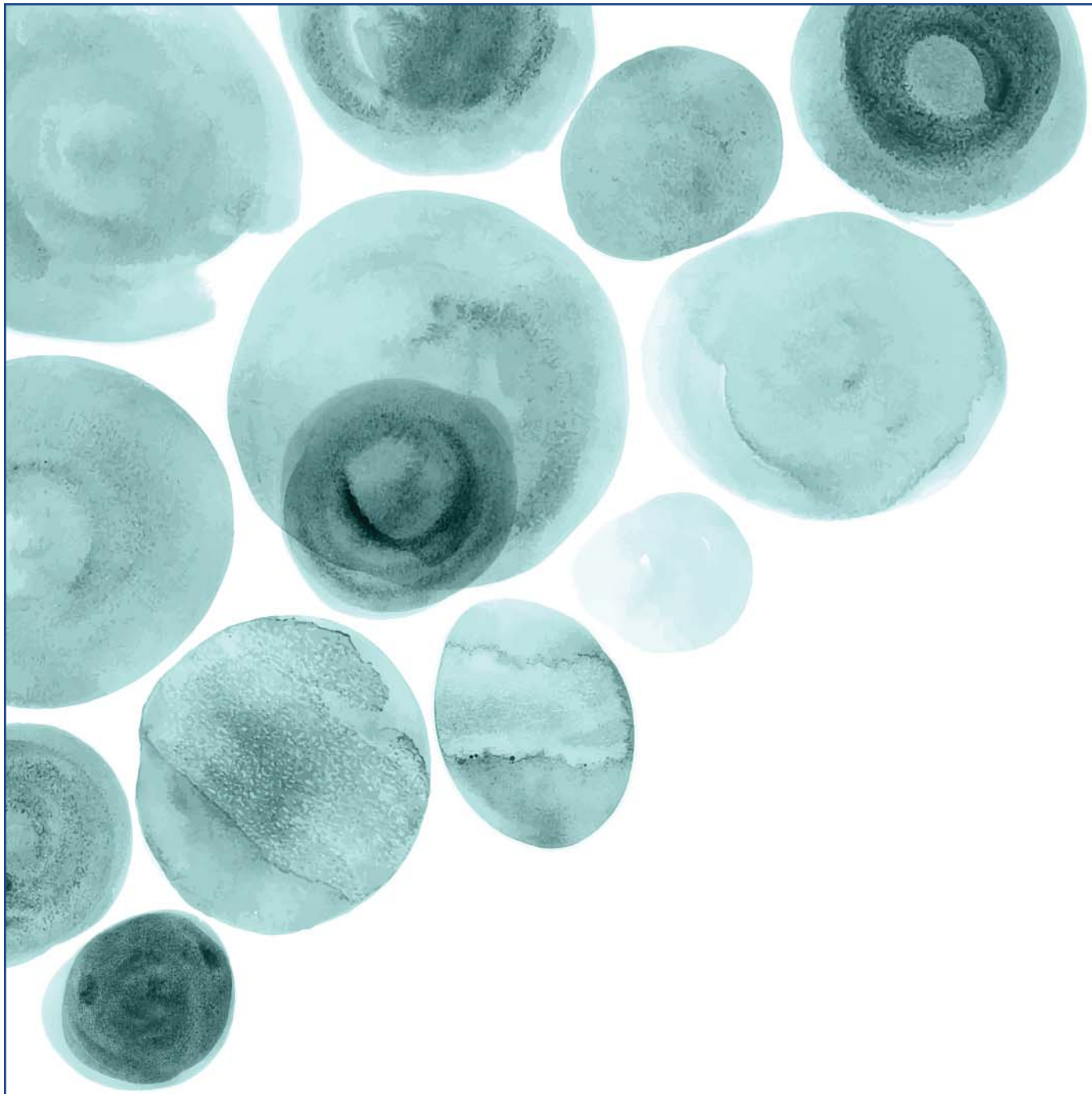
- Reputation Risk – The WSIB must maintain its reputation in order to be a sought after partner in the market place, a trusted fiduciary by stakeholders and the legislature, and a valued resource for the citizens of the state of Washington. Failure in any of these prior five risk categories will damage the WSIB's reputation and its credibility, and make it difficult, if not impossible, to achieve the goals of its constituents. The agency has dedicated resources focused on coordinating and monitoring communication for the agency. The Board has also adopted rigorous codes of conduct and conflict of interest policies to ensure that its actions meet the most stringent standards and review. Ongoing education and information assist the Board members in making informed decisions. This enables the WSIB to promote and protect our reputation.

ANNUAL BUDGET

June 30, 2015

OBJECTS OF EXPENDITURE APPROPRIATED	Budget	Expenditures	Budget Variance
Salaries	$ 12,251,042	$ 10,272,553	$ 1,978,489
Benefits	2,804,520	2,373,092	431,428
Personal Service Contracts	578,029	663,398	(85,369)
Goods & Services	3,327,188	3,259,495	67,693
Travel	1,324,346	548,784	775,562
Equipment	227,920	324,437	(96,517)
Treasury Note	158,435	158,435	-
Subtotal Appropriated	$ 20,671,480	$ 17,600,194	$ 3,071,286

NON-APPROPRIATED	Budget	Expenditures	Budget Variance
Public Equity	$ 49,900,000	$ 58,112,717	$ (8,212,717)
Private Equity	214,648,000	185,504,081	29,143,919
Real Estate	47,246,000	31,875,571	15,370,429
Tangible Assets	10,899,000	22,113,658	(11,214,658)
Innovation Portfolio	3,769,000	1,020,040	2,748,960
General Consultants	1,015,000	342,145	672,855
Staff Consultants	895,000	653,341	241,659
Advisory Services Consultants	500,000	-	500,000
Legal Fees	930,000	1,372,407	(442,407)
Custodian Bank Fees	500,000	35,202	464,798
Securities Lending	7,111,437	7,357,700	(246,263)
Cash Management	4,092,578	2,703,028	1,389,550
Cash Overlay	500,000	352,419	147,581
Portfolio Verification - Shadow Investment System	2,830,000	366,802	2,463,198
Investment Accounting Data System	1,607,950	1,592,488	15,462
Memberships	77,350	176,139	(98,789)
Research Services	2,424,000	2,708,923	(284,923)
Subtotal Non-Appropriated	348,945,315	316,286,661	32,658,654
TOTAL	$ 369,616,795	$ 333,886,855	$ 35,729,940



INVESTMENTS

CTF Investment Summary of the Last Year (13)
Other Plans Under Management (17)

CTF INVESTMENT SUMMARY OF THE LAST YEAR

Strategic Asset Allocation

Strategic asset allocation is the process of selecting a mix of asset classes, such as stocks and bonds, and determining their proportions within an investment portfolio. Asset allocation decisions account for nearly 92 percent of the variation between returns on different portfolios and are often considered to be the most important driver of investment performance. Portfolio assets are diversified to help offset declines in any one class, smooth out marketplace ups and downs, and reduce overall investment risk.

The WSIB invests in six broad-based asset classes: public equity, fixed income, private equity, real estate, tangible assets, and cash. A strategic allocation is established for each fund managed by the Board which includes the asset classes used by that fund, long-term policy targets for those asset classes, and the acceptable ranges within which those targets can vary. The WSIB formally reviews the strategic asset allocations at least every four years.

Highlights

- The Board established the asset allocation for the Washington State Opportunity Scholarship (WSOS) fund. WSOS funds are held in two accounts, a scholarship account and an endowment account, and consist of both private donations and state matching funds. The asset allocation for private funds contained in the scholarship account is 60 percent public equity and 40 percent fixed income, and the asset allocation for the private funds contained in the endowment account is 80 percent public equity and 20 percent fixed income. The state matching funds in both accounts are invested in cash.
- The Board completed an asset allocation study for the Developmental Disabilities Endowment Fund (DDEF). The allocation to Treasury Inflation Protected Securities was eliminated for state funds and the allocation to fixed income was increased accordingly. No change was made to the asset allocation of the private funds.
- The Board also completed an asset allocation study for the Guaranteed Education Tuition (GET) program. GET's allocation to Treasury Inflation Protected Securities was also eliminated and the allocation to fixed income increased accordingly. Additionally, the real return objective for the program was decreased to 3.25 percent from 4.5 percent to be more reflective of the program's asset allocation.

Retirement Funds

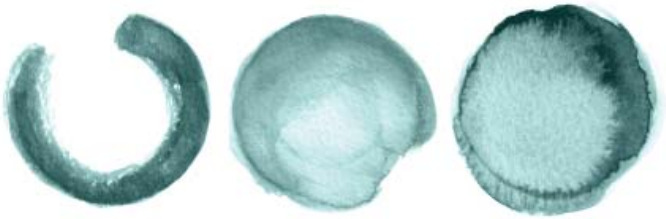
To more efficiently manage investments, reduce administrative costs, and minimize investment fees, the defined benefit retirement fund assets are pooled into the CTF. Over the past 10 years, the fund has grown from $53.8 billion to $81.7 billion including employer and employee contributions, plus net investment returns, less benefit payments and fund transfers (this does not include Plan 3 self-directed defined contribution funds). This year, the market value stated in the audited financials for the retirement fund is significantly different than the market value that is reported through the custodian bank for the same time period. Historically, there has always been a discrepancy, but as the market value of the retirement fund continues to grow in size so does the difference. This is due to updated year end alternative asset valuations that are received after the unit price for the CTF is published. The retirement funds' audited financials are issued approximately 3 months after that price is established. Accordingly, the values in the audited financials can vary from the prices used to value the CTF as both have different pricing policies.

The WSIB measures fund performance by comparing the performance of investment returns of each asset class in the CTF to appropriate benchmarks. Although quarterly and yearly returns change, long-term realizations should meet or exceed the 7.8 percent actuarially assumed rate of return.

It is important to remember that individual asset classes differ in their behavior and volatility from one year to the next. The fair value of most public market investments can be determined and priced instantly. However, real estate and private equity investments are very illiquid and not easily priced, so it may take years before expected returns are apparent and realized.

Fixed Income

The fixed income program for the CTF is actively managed by WSIB staff against a performance benchmark of the Barclays Universal Index. The main sectors in the portfolio are U.S. governments, credit, and structured.



During fiscal year 2015, $250 million in cash was moved into the portfolio and $850 million was moved out. The yield on the 10-year treasury decreased slightly, starting at 2.52 percent and ending at 2.35 percent. It reached a high of 2.64 percent in early July 2014 and a low of 1.64 percent at the end of January 2015.

Highlights

- The portfolio underperformed the Barclays Universal Index for the year, returning 0.30 percent versus 1.61 percent for the Universal Index.
- Within the portfolio, credit and U.S. government bonds were overweighted, while structured bonds were underweighted.
- Transactions totaled $4.0 billion in purchases and $3.3 billion in sales.

Tangible Assets

The tangible asset portfolio invests in non-financial assets having physical substance that are used in the production or supply of goods and services. The portfolio focuses on upstream and midstream segments in four main industries: minerals and mining, energy, agriculture, and society essentials. Each has a different return attribute which provides diversification benefits to the overall CTF portfolio.

The externally-managed partnerships are expected to generate returns, on whole, higher than fixed income but lower than equities. It is anticipated that the assets will have a large portion of the return attributed to annual distributions of income generated by the assets with the remainder due to capital appreciation commensurate with inflation.

Tangible assets were established as a separate asset class in 2007 and implemented in 2008. Over time, we expect to create a well-diversified, global tangible asset portfolio with a variety of partners spread among the target sectors noted above, each with their own level of investment risks, style, and geographic diversification.

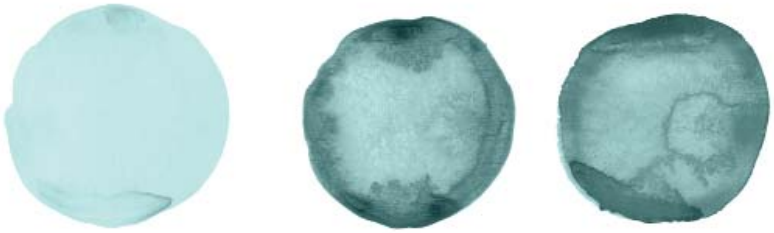
Highlights

- This asset class is still relatively new and is in a ramp-up phase.
- The Board approved investments in six funds totaling $1.35 billion during FY 2015.
- $409 million of committed capital was drawn during the fiscal year.
- $159 million in distributions were returned to the WSIB.

Real Estate

The WSIB's real estate program focuses primarily on creating a high-quality, long-term, stable income stream for the CTF. Investments target risk-adjusted returns consistent with our long-term expectations for the asset class. The majority of these externally-managed partnerships invest in properties leased to third-parties. The steady income from lease payments, combined with the potential for appreciation, generate returns that are expected to fall between the performance for fixed income and equities over the long-term.

In most cases, the WSIB and its local partners are the only financial investors in a partnership. This provides the WSIB with excellent governance provisions related to acquisition, disposition, and annual business planning processes. The majority of our partners own real estate assets as private market investments and, as a result, better reflect the actual attributes of real estate investing rather than the potential volatility of public markets. Capital is widely diversified among a variety of partners, each with its own investment style, and real estate assets are geographically diversified, including outside the U.S. Investments are made in a variety of property types to provide further diversification. Finally, diversification is enhanced by our partners investing at different points in the real estate capital structure and at different times in the property life cycle. These varying kinds of diversification provide a degree of stability within a cyclical investment class.



The portfolio continues to produce attractive income yields—the primary goal of the program. The importance of having a long-term investment horizon is evident in the attractive returns for the real estate portfolio over a 10-year period. The strongest drivers of the good long-term returns are the WSIB's investments in real estate operating companies (REOCs), diversification by market and property type, and an emphasis on high-quality micro-locations in major markets.

Highlights

- The 10-year return for the WSIB's real estate portfolio was 8.76 percent versus the WSIB's return benchmark for real estate of 8.00 percent over a rolling 10-year period.
- The portfolio's 10-year return also exceeded the 8.39 percent 10-year return of the NCREIF Index (lagged a quarter).
- Over the past year, positive returns were driven by several factors, including appreciation due to strong investor demand and completion of a number of properties previously under development.
- Investments in the UK and U.S. were the strongest contributors to returns.

Public Equity

The public equity program uses a global benchmark, the Morgan Stanley Capital International ("MSCI") All Country World with USA Gross Investable Market Index, reflecting the globalization of capital markets. In a world where American companies like Coca-Cola get most of their revenue from overseas and many foreign companies serve mainly the U.S., distinctions between "U.S. stocks" and "international stocks" have become increasingly blurred. The WSIB believes the future success of the program depends on investment managers finding the most attractive opportunities wherever they are in the world.

Because U.S. equity markets are generally efficient and international equity markets are increasingly efficient, most of the WSIB's public equity investments are in low-cost, broad-based passive index funds. We employ both passive U.S. equity and passive international (developed and emerging) equity in order to maintain policy weights in both areas. Global equity mandates, in which investment firms can pick the most attractive stocks wherever they are domiciled in the world (U.S. or international), and emerging markets equity mandates are primarily actively managed.

After two consecutive fiscal years that saw very strong equity returns, in FY 2015, equity markets were only modestly positive with the global equity market rising 1.11 percent, compared to 23.71 percent and 17.45 percent rises in the two previous fiscal years. We noted in last year's annual plan that the previous returns "put most equity markets at record highs and vulnerable to disappointing news." Unfortunately, this proved true. The U.S. equity markets did relatively well, returning 7.36 percent over the year but emerging markets continued to face challenges with equity markets there declining with a -4.41 percent return for the fiscal year. Non-U.S developed and emerging markets also faced the headwind of a strongly rising U.S. dollar, which made non-U.S.-dollar-denominated returns look much weaker to a U.S. dollar based investor such as the WSIB.

The global macro-economic environment continues to deal with many concerns including slowing global growth and the prospects of rising interest rates. There is no consensus on whether equity market returns will be positive or negative in the short term and staff expects continued volatility in the near term.

The public equity program continued to outperform, with a 1.37 percent return for the overall program versus a 1.11 percent return for the benchmark, adding 26 basis points of value added net of all fees and expenses. Staff continues to believe that a program that modestly outperforms most years will deliver significant value added over the long term.

Highlights

- The U.S. equity program underperformed its benchmark by 36 basis points (bps) with a return of 7.00 percent versus the benchmark's 7.36 percent return. The program has a modest value tilt. Over long periods of time, a value tilt has increased returns but value stocks were out of favor in the past fiscal year.

- The developed international equity program returned 32 bps more than its benchmark with the portfolio returning -4.79 percent while the benchmark had a -5.11 percent return.
- The active global equity program continued to perform very well, 281 bps better than the benchmark, returning 3.92 percent versus the benchmark return of 1.11 percent. Public equity staff continue to believe that allowing skilled managers to choose the best stocks wherever they are in the world presents the best return opportunities long-term.
- The emerging markets equity program underperformed its benchmark by 391 bps, returning -8.32 percent versus the benchmark return of -4.41 percent. Staff made significant changes over the course of the year to address the disappointing returns in this portion of the structure.
- Overall, the public equity portfolio within the CTF is well structured and continued to deliver outperformance this past fiscal year, as well as on rolling three-year and five-year bases.

Private Equity

As of June 30, 2015, the private equity portfolio was valued at $18.5 billion, or 22.6 percent of the CTF, compared with $18.3 billion and 23.1 percent at the previous fiscal year-end. The $0.2 billion increase in the value of the portfolio was achieved despite the fact that distributions received by the WSIB from fund investments exceeded capital drawn for investment by $1.5 billion during the fiscal year, as the portfolio's investments appreciated in value by approximately $1.7 billion. The program has been strongly cash flow positive for the past few years.

During the fiscal year, the WSIB closed on nearly $4.1 billion of new commitments across 17 private equity funds, one of which represented a new general partner relationship. Capital drawn for investment was approximately $0.4 billion lower than in the previous year, although the pace of investment has remained relatively consistent since 2010. Distributions from portfolio company liquidations were very robust again this year, although slightly less than the prior year.

A new Investment Officer was added to the Private Equity unit during the year, increasing the size of the investment team to 8. The objective of the private equity program continues to be to generate a significant premium above the returns of the public equity markets over the long term, by investing in a well-diversified portfolio of funds managed by a stable of high-quality general partners.

Highlights

- $4.1 billion in new commitments to funds were closed during FY 2015 compared to $2.5 billion in FY 2014.
- $2.7 billion of capital was drawn for investment during the fiscal year compared to $3.1 billion in the prior year.
- $4.2 billion in distributions were returned to the CTF in FY 2015 compared with $4.9 billion in FY 2014.

Innovation Portfolio

The primary investment strategy of the innovation portfolio gives staff the ability to make investments that fall outside the established asset class programs currently used by the Board. Secondly, this portfolio provides the Board with comfort and demonstrated success before committing larger dollar amounts to different investment strategies.

Highlights

- No new investment strategies were added to or removed from the innovation portfolio during the fiscal year.

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OTHER PLANS UNDER MANAGEMENT

Defined Contribution Retirement Plans

The WSIB oversees the investment options in Plan 3 (Teachers' Retirement System/School Employees' Retirement System/Public Employees' Retirement System), the Deferred Compensation Program (DCP), and the Judicial Retirement Account (JRA). However, these programs are accounted for and reported on by the Department of Retirement Systems (DRS). Therefore, performance information and the financial statements are provided by DRS.

PERS 3: $2.4 Billion

SERS 3: $1.7 Billion

TRS 3: $7.3 Billion

Deferred Compensation Program: $3.6 Billion

Judicial Retirement Account: $13.0 Million

Labor and Industries' Funds

$14.7 Billion

The WSIB manages Industrial Insurance funds on behalf of the Department of Labor and Industries (L&I). The L&I portfolio consists of four separate funds:

- The Accident Fund primarily pays disability benefits.
- The Medical Aid Fund pays for services required by injured workers and L&I administrative costs.
- The Pension Reserve Fund is maintained by transfers of money from the Accident Fund at the time that a new pensioner is setup.
- The Supplemental Pension Fund supplements time loss and compensates for cost-of-living increases.

Permanent Funds

$983 Million

The permanent funds are non-expendable trusts. The principal for each fund remains intact and investment earnings, less expenses, are reinvested or distributed to a beneficiary fund. Five of these funds were established through federal government land grants to help Washington's schools and colleges with bond repayment, capital development, and facilities maintenance. The Department of Natural Resources transfers proceeds from the sale of land and timber to the WSIB for investment purposes. Fund proceeds are invested in fixed income, short-term holdings, and U.S. equity depending on each funds' policy regulations.

Guaranteed Education Tuition Fund

$2.7 Billion

The Guaranteed Education Tuition (GET) program allows individuals or groups to purchase state college and university tuition units for future use at current prices. Program administration is under the authority of the Advanced Tuition Payment Program Committee. The WSIB serves as trustee for the funds and invests them in a mix of short-term holdings, TIPS, U.S. Equity, and International Equity.

Developmental Disabilities Endowment Trust Fund

$49.0 Million

The Developmental Disabilities Endowment Trust Fund (DDEF) supports individuals with developmental disabilities through private contributions and public appropriations. The WSIB invests the fund in a mix of short-term holdings, TIPS, fixed income, and U.S. equity.

Washington State Opportunities Scholarship

$43.8 Million

This fund was created by the Washington State Legislature to encourage student participation in high employer-demand programs of study. The WSOS funds are comprised of two distinct pools of assets each comprised of private funds and state matching funds.

Daily Valued Funds for Self-Directed Investment Programs

Bond Market Fund $1.8 Billion

The goal of this daily-valued fund is to provide participants of the self-directed defined contribution retirement plans (TRS/SERS/PERS Plan 3s, DCP, and JRA) attractive returns while controlling risk by investing in high-quality corporate bonds. The fund is internally managed by the WSIB and is intended for those who want an intermediate-term investment designed to match or moderately exceed the returns of the Lehman Intermediate Credit Index.

Savings Pool $867 Million

The savings pool is intended as a conservative, short-term investment opportunity where the primary objective is to protect current income and preserve principal. The savings pool is a diversified portfolio of guaranteed investment contracts (GICs) and short-term cash funds.

FINANCIALS

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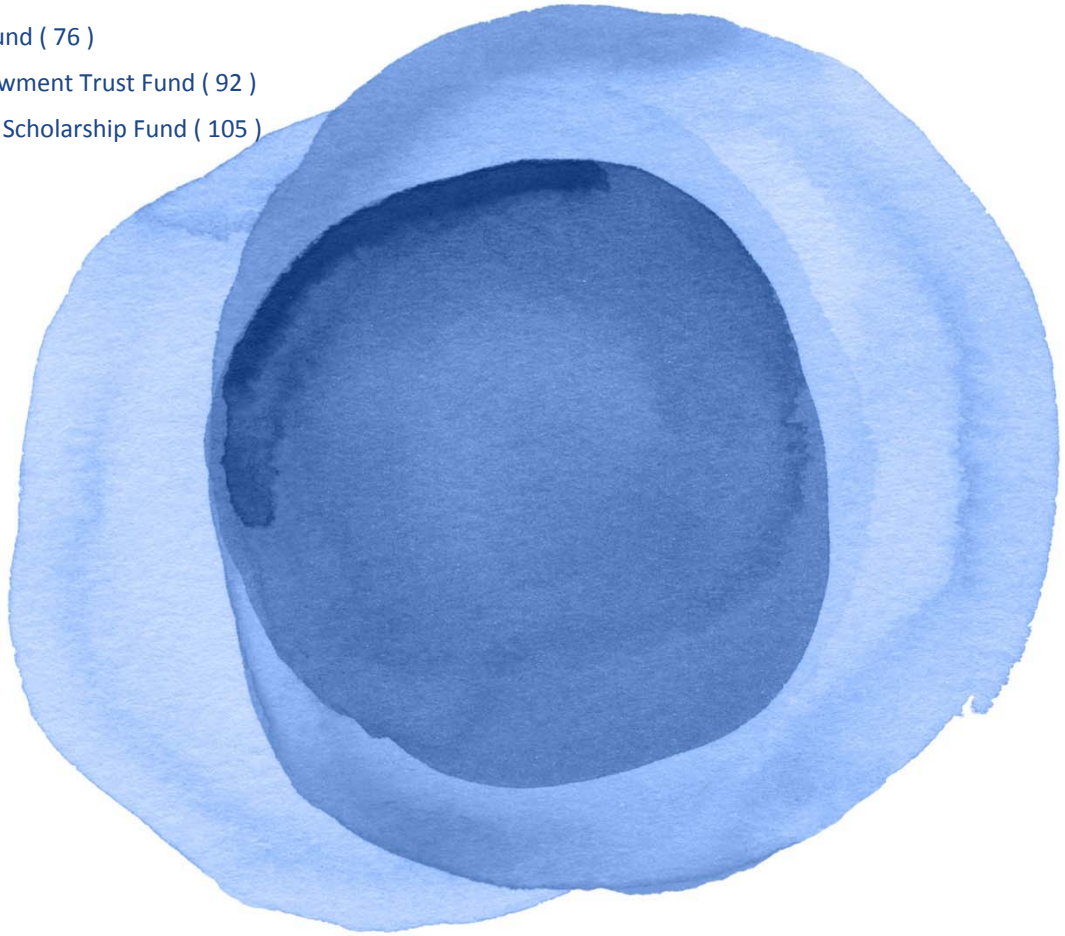

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the basic financial statements and notes to the financial statements. The financial statements included are for the Retirement Funds, L&I Funds, Permanent Funds, GET, DDEF, WSOS, and Daily Valued Funds. The financial statements are reported separately due to the unique goals and objectives for each set of funds and each set of funds undergoes a separate financial statement audit.

Basic Financial Statements

The basic financial statements presented include the Statement of Net Assets, which reports the assets by general asset category and the related liabilities as of June 30, 2015, and the Statement of Changes in Net Assets, which reports the contributions to, withdrawals from, and investment earnings for the fiscal year ending June 30, 2015.

The financial statements and notes were prepared by the investment accounting unit of the WSIB.

Notes to the Financial Statements

The notes to the financial statements presented are an integral part of the financial statements and include additional information not readily evident in the financial statements themselves.

Contacting WSIB's Financial Management

This financial report is designed to provide a general overview of WSIB's investment activities.

If you have any questions about this report or need additional information, contact:
The Washington State Investment Board
2100 Evergreen Park Drive SW
PO Box 40916, Olympia, WA 98504-0916

Phone: 360-956-4600
Website: http://www.sib.wa.gov

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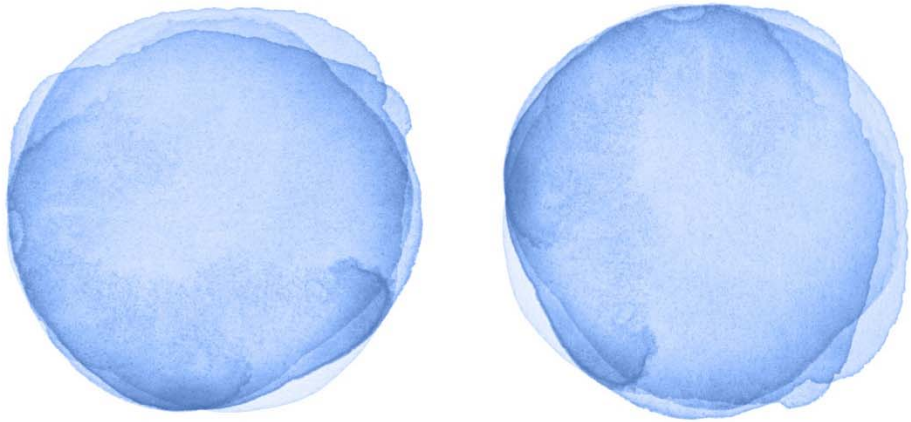
RETIREMENT FUNDS



Independent Auditor's Report

To the Members of the Washington State Investment Board
Olympia, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the Retirement Funds (which is comprised of the Commingled Trust Fund and Plan-Specific Investments) of the State of Washington as managed by the Washington State Investment Board (the Retirement Funds), which comprise the statement of net investment position as of June 30, 2015, and the related statement of changes in net investment position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the investment position of the Retirement Funds as of June 30, 2015, and the changes in net investment position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1 to the financial statements, total System investments include investments valued at $32.1 billion (39% of total assets) as of June 30, 2015, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Eide Bailly LLP

Boise, Idaho
September 30, 2015

Management Discussion and Analysis

Management's Discussion and Analysis for the Retirement Funds of Washington State, managed by the Washington State Investment Board (WSIB), is presented as an introduction to the financial statements. It is meant to assist the reader in understanding the financial statements by providing an overall review of the financial activities during the year, as well as to provide a comparison to the prior year's activities and results. In addition to the Retirement Funds, the WSIB also manages funds for other Washington State departments. This section of the report represents only the Retirement Funds portion. The Retirement Funds are the largest investor in funds managed by the WSIB.

The financial statements and footnotes follow this section of the report. The Statement of Net Investment Position provides information on the types of investments and the liabilities of the Retirement Funds. This information is summarized in Table 1. Table 1 also compares the asset, liability, and net investment position at June 30, 2015, with those at June 30, 2014. The Statement of Changes in Net Investment Position provides information on investment performance and other increases and decreases in the net investment position of the Retirement Funds for the year ended June 30, 2015. This information is summarized in Table 2, which also compares the financial activities of the Retirement Funds for the year ended June 30, 2015, with those of the year ended June 30, 2014. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements of the Retirement Funds.

Investment returns for the significant asset classes and in total for the current fiscal year compared to the prior fiscal year are as follows:

Investment Returns Commingled Trust Fund (CTF)	FY 2015	FY 2014
Debt Securities	0.3%	6.0%
Equity Securities*	1.2%	24.2%
Alternative Assets**		
Private Equity	11.2%	19.9%
Real Assets	14.3%	13.7%
Tangible Assets	3.6%	5.0%
Total Investment Return - CTF**	4.9%	17.1%

* Includes the returns of investments within the innovation portfolio

** Alternative asset returns are lagged by one quarter and cover a one year period ending March 31st

RETIREMENT FUNDS

As shown in Table 1, the net investment position of the Retirement Funds increased by $2.3 billion during the fiscal year ended June 30, 2015. Net realized and unrealized gains within the portfolio increased net investment position by $2.1 billion. All asset classes experienced positive investment returns for the fiscal year. Distributions to the retirement system decreased net investment position by $(1.3) billion. Other investment income reinvested in the portfolio increased the net investment position by $1.5 billion.

Table 1 - Summarized Net Investment Position

	2015	2014	Dollar Change	Percent Change
Cash and Cash Equivalents	$ 2,152,830,798	$ 1,816,341,227	$ 336,489,571	18.5%
Debt Securities	17,858,971,397	18,404,010,693	(545,039,296)	(3.0%)
Equity Securities	29,776,691,792	29,790,982,848	(14,291,056)	(0.0%)
Alternative Investments	32,055,690,438	29,640,341,821	2,415,348,617	8.1%
Total Investments	**81,844,184,425**	**79,651,676,589**	**2,192,507,836**	**2.8%**
Collateral Held Under Securities Lending Agreements	843,051,714	1,092,049,057	(248,997,343)	(22.8%)
Open Foreign Exchange Contracts Receivable	1,989,775,468	1,073,619,030	916,156,438	85.3%
Other Receivables	424,215,274	536,888,056	(112,672,782)	(21.0%)
Total Assets	**85,101,226,881**	**82,354,232,732**	**2,746,994,149**	**3.3%**
Obligations Under Securities Lending Agreements	843,051,714	1,092,049,057	(248,997,343)	(22.8%)
Open Foreign Exchange Contracts Payable	1,984,641,326	1,062,381,795	922,259,531	86.8%
Other Payables	578,107,804	759,246,187	(181,138,383)	(23.9%)
Total Liabilities	**3,405,800,844**	**2,913,677,039**	**492,123,805**	**16.9%**
Net Investment Position	**$ 81,695,426,037**	**$ 79,440,555,693**	**$ 2,254,870,344**	**2.8%**

The following summarizes changes within each grouping listed in Table 1:

- Cash and cash equivalents increased by $0.3 billion. This cash balance represents less than 3 percent of total invested balances. Initially, net investment income received from all asset classes and contributions are reinvested in money market funds. Withdrawals by the Retirement Funds are also funded from cash balances. These balances fluctuate within policy ranges, as asset allocation decisions are made with accumulated cash to longer term investments. Transfers from other asset classes that were reinvested in money market funds, totaled $1.6 billion. Withdrawals by the Retirement Funds to cover operating needs, reduced liquid assets by $(1.3) billion. The remaining change was investment income reinvested in money market funds.
- Debt securities decreased by $(0.5) billion during the current fiscal year. Proceeds from the sale of fixed income securities were transferred to other asset classes totaling $(0.5) billion. Net realized and unrealized losses decreased fixed income securities by $(0.6) billion. The remaining change was income received and reinvested within the fixed income portfolio and the impact of current and prior year unsettled investment trades. The global low interest rate environment continued in Fiscal Year 2015, due to central bank policies, slow economic growth, and low inflation. In the U.S., the fixed income market experienced low absolute returns, and the safest sectors outperformed the riskier ones. The Barclays Universal Index, which includes high yield and emerging markets, underperformed the Barclays Aggregate Index, which does not. Treasury yields fell for the first 7 months of the fiscal year and rose for the last 5 months. For the full year, long duration treasuries outperformed short duration ones, but long duration credit underperformed. Credit spreads widened during the year, particularly for commodity producers. At the June meeting of the Federal Open Markets Committee, the Fed expressed optimism about the economy and indicated it could soon raise rates. Fixed income performance was positive for the year, as interest earned from coupon payments was greater than the decline in market value of the bond holdings. The retirement fund fixed income underperformed its benchmark due to its inclusion of non-U.S. dollar denominated securities which are not included in the benchmark. The U.S. dollar appreciated due to interest rate differentials, superior U.S. economic growth, and the dollar's safety.

- Equity securities decreased by less than ($0.1) billion. Net realized and unrealized losses decreased equities by $(0.1) billion. Proceeds from the sale of equity securities were transferred to other asset classes and reduced equity balances by $(.4) billion. The remaining increase was income received and reinvested in equity securities. The U.S. equity market continued its strong relative performance in fiscal year 2015. The stronger economic environment and tighter monetary conditions relative to other developed countries, contributed to U.S. market outperformance. During fiscal year 2015, the U.S. dollar appreciated due to interest rate differentials, superior U.S. economic growth, and the dollar's safety. The price of oil and other commodities fell significantly in U.S. dollar-terms over the fiscal year amid slowing global growth. In the U.S., value-oriented securities, including those that pay dividends, lagged growth securities as well as the broad market.
- Alternative investments increased by $2.4 billion. Distributions received from general partners totaled $6.1 billion. The cash flow was used to fund capital calls of $(5.3) billion. Transfers of excess distributions and income to other asset classes decreased invested balances by $(.8) billion. Net realized and unrealized gains for the current fiscal year increased alternative investments by $2.7 billion. The remaining increase was due to reinvestment of income within the fund. The private equity portfolio benefitted from a private equity market environment that continued to be very active in Fiscal Year 2015, both on the new deal and exit fronts. Liquidity conditions were favorable while deal pricing trended higher, aided by a further increase in the availability of debt financing on extremely favorable terms. Now in the third year of a successful private equity environment, the best managers are increasingly cautious in deploying capital, while at the same time raising funds for future investment in more difficult times ahead. The strong return from real estate in Fiscal Year 2015 resulted from a combination of appreciation due to strong tenant demand, continued high investor demand, and the completion of properties that had been under development. The primary drivers behind the tangible asset return were positive exits during the current fiscal year. This aspect was dampened by fee drag during the ramp-up of the tangibles program and exposure to commodity pricing.
- Collateral held and obligations under securities lending agreements decreased by $(0.2) billion. Reported collateral balances in the Retirement Funds financial statements represent only cash received as collateral and reinvested. Additional securities received as collateral totaled $0.6 billion. Overall securities on loan and collateral held decreased by $2.2 billion. U.S. government securities on-loan balances accounted for the decrease in securities lent, as well as collateral held. The demand to borrow these securities fell in part due to the increased costs to borrow from higher rebate rates. Equity securities continued to dominate the security type lent this fiscal year, due to higher spreads and returns than fixed income securities.
- Open foreign exchange contracts receivable and payable increased by $1.0 billion. Investment managers use spot and forward currency contracts in connection with the cash overlay program, as well managing trade settlements in foreign markets. As with other trading related receivables and payables, the balances fluctuate based on the trading needs of the managers and have little correlation to invested balances.
- Other payables and receivables decreased due to decreases in unsettled security trades. Trading volumes can vary substantially, based on the timing of additional cash flows, market movements, and rebalancing of asset classes within a portfolio. Accordingly, there is generally minimal correlation to invested balances.

As shown in Table 2, net investment income for the fiscal year decreased by $(9.1) billion, almost entirely due to decreases in net realized and unrealized gains from the previous year. The annualized return for the fiscal year ended June 30, 2015, was 4.9 percent compared to the prior fiscal year return of 17.1 percent. Net investment income and expenses remained relatively stable compared to the prior year. Distributions to the Retirement System remained at consistent levels for the year ended June 30, 2015, increasing over the prior year by approximately 7 percent. Large increases in withdrawals, as seen in prior years due to reduced workforces and increasing pension payouts, stabilized during the past four fiscal years.

Table 2 - Summarized Changes in Net Investment Position

	2015	2014	Dollar Change
Net Investment Income			
Investment Income	$ 1,815,223,828	$ 1,799,662,206	$ 15,561,622
Net Realized and Unrealized Gains	2,088,219,006	11,213,148,819	(9,124,929,813)
Investment Expenses	(307,338,314)	(306,746,469)	591,845
Net Investment Income	**3,596,104,520**	**12,706,064,556**	**(9,109,960,036)**
Net Withdrawal by Retirement Plans	(1,341,234,176)	(1,253,080,334)	88,153,842
Net Investment Position - Beginning	**79,440,555,693**	**67,987,571,471**	11,452,984,222
Net Investment Position - Ending	**$ 81,695,426,037**	**$ 79,440,555,693**	**$ 2,254,870,344**

The fair value of the Retirement Funds' assets is directly impacted by the returns of the various capital markets within which the WSIB invests. However, 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. The WSIB makes the asset allocation decisions for the Retirement Funds based on recommendations from its staff and other investment experts. The Retirement Fund assets are rebalanced by WSIB across asset classes, as appropriate, when fair values of assets fall outside policy ranges.

Retirement Funds Statement of Net Investment Position - June 30, 2015

See notes to financial statements

	Commingled Trust Fund	Plan-Specific Investments	Total	Percent of Plan Assets
ASSETS				
Investments:				
CASH AND CASH EQUIVALENTS	$ 2,037,949,852	$ 114,880,946	$ 2,152,830,798	2.6%
DEBT SECURITIES				
Mortgage and Other Asset Backed Securities	1,585,736,479	-	1,585,736,479	
Corporate Bonds	9,127,576,692	-	9,127,576,692	
U.S. Government and Agency Securities	6,061,063,362	-	6,061,063,362	
Foreign Government and Agency Securities	1,084,594,864	-	1,084,594,864	
Total Debt Securities	17,858,971,397	-	17,858,971,397	21.8%
EQUITY SECURITIES				
Common and Preferred Stock	18,370,013,385	-	18,370,013,385	
Commingled Equity Trusts	10,358,522,589	-	10,358,522,589	
Depository Receipts and Other Miscellaneous	1,048,155,818	-	1,048,155,818	
Total Equity Securities	29,776,691,792	-	29,776,691,792	36.4%
ALTERNATIVE INVESTMENTS				
Private Equity	18,457,130,738	-	18,457,130,738	
Real Estate	11,967,076,517	-	11,967,076,517	
Tangible Assets (Infrastructure, Natural Resources)	1,631,483,183	-	1,631,483,183	
Total Alternative Investments	32,055,690,438	-	32,055,690,438	39.2%
Total Investments	81,729,303,479	114,880,946	81,844,184,425	100.0%
Collateral Held Under Securities Lending Agreements	843,051,714	-	843,051,714	
Investment Earnings Receivable	230,096,293	52,475	230,148,768	
Receivables for Investments Sold	194,066,506	-	194,066,506	
Open Foreign Exchange Contracts Receivable	1,989,775,468	-	1,989,775,468	
Total Assets	84,986,293,460	114,933,421	85,101,226,881	
LIABILITIES				
Obligations Under Securities Lending Agreements	843,051,714	-	843,051,714	
Investment Management Fees Payable	14,333,583	19,756	14,353,339	
Payable for Investments Purchased	563,754,465	-	563,754,465	
Open Foreign Exchange Contracts Payable	1,984,641,326	-	1,984,641,326	
Total Liabilities	3,405,781,088	19,756	3,405,800,844	
NET INVESTMENT POSITION	$ 81,580,512,372	$ 114,913,665	$ 81,695,426,037	

Retirement Funds Statement of Changes in Net Investment Position - Year Ended June 30, 2015

See notes to financial statements

	Commingled Trust Fund	Plan-Specific Investments	Total
Net Investment Income			
Investment Income:			
Interest, Dividends, and Other Investment Income	$ 1,814,722,707	$ 501,121	$ 1,815,223,828
Net Realized Capital Gains	2,355,172,794	-	2,355,172,794
Unrealized Losses	(266,953,788)	-	(266,953,788)
Less:			
Investment Expenses	(294,379,072)	(221,953)	(294,601,025)
WSIB Operating Expenses	(12,734,603)	(2,686)	(12,737,289)
Net Investment Income	3,595,828,038	276,482	3,596,104,520
Net Withdrawal by Retirement Plans	-	(1,341,234,176)	(1,341,234,176)
Investments in Commingled Funds	527,819,184	(527,819,184)	-
Withdrawals from Commingled Funds	(1,902,670,786)	1,902,670,786	-
Increase (Decrease) in Net Investment Position	2,220,976,436	33,893,908	2,254,870,344
NET INVESTMENT POSITION, JUNE 30, 2014	79,359,535,936	81,019,757	79,440,555,693
NET INVESTMENT POSITION, JUNE 30, 2015	$ 81,580,512,372	$ 114,913,665	$ 81,695,426,037

Notes to Financial Statements

Note 1. Description of Funds and Significant Accounting Policies

Description of Funds

The Retirement Funds consist of retirement contributions from employer and employee participants, and related earnings on those contributions, in the Washington State Retirement System. The Retirement System is administered by the Department of Retirement Systems (DRS). The financial statements present only the activity of the Retirement Funds, as managed by the WSIB. The WSIB has exclusive control of the investment of all money invested in the Retirement Funds. The financial statements do not present the financial position or the results of operations of the WSIB or the DRS.

Basis of Accounting

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States for governments prescribed by the Governmental Accounting Standards Board (GASB), on the accrual basis of accounting.

Valuation of Investments

Investments are reported at fair value. Unrealized gains and losses are included as investment income in the Statement of Changes in Net Investment Position.

The net investment position of the Retirement Funds are valued on a monthly basis, using the following sources:

Publicly Traded Securities (Corporate Stock, Commingled Funds, Exchange Traded Derivatives, and Fixed Income): Fair values are based on published market prices, quotations from national security exchanges, and security pricing services, as of each month end closing of the New York Stock Exchange.

Limited Partnerships: The fair value of investments that are organized as limited partnerships and have no readily ascertainable fair value (such as private equity, real estate, and tangible assets) has been determined by management based on the individual investment's capital account balance, reported at fair value by the general partner, at the closest available reporting period, adjusted for subsequent contributions, distributions, management fees, and changes in values of foreign currency and published market prices for certain securities.

The limited partnerships' annual financial statements are audited by independent auditors. These investments are valued at $32.1 billion (39 percent of total investments), as of June 30, 2015. Because of the inherent uncertainties in estimating fair values, it is possible that the estimates will change in the near-term.

Private Equity Limited Partnerships: The fair value of individual capital account balances is based on the valuations reported by private equity partnerships, using the following methodologies to value the underlying portfolio companies:

- Valuations of publicly traded portfolio companies are based on active exchanges using quoted market prices as of the close of trading for each month-end.
- When a portfolio company investment does not have a readily available market price but has a return that is determined by reference to an asset for which a market price is readily available, valuations are based on the closing market price of the reference asset on the valuation date, adjusted for unique factors that affect the fair value of the investment held.
- When the portfolio company investments are private holdings and are not traded on active security exchanges, valuation methodologies used consist primarily of income and market approaches. The income approach involves a discounted cash flow analysis based on portfolio companies' projections. The market approach involves valuing a company at a multiple of a specified financial measure, generally Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA), based on multiples of comparable publicly traded companies.

Real Estate Limited Partnerships: Real estate partnerships provide quarterly valuations based on the most recent capital account balance to WSIB management. Individual properties are valued by the partnerships at least annually and are adjusted as frequently as quarterly if material market or operational changes have occurred. Properties are generally externally appraised every 1 to 5 years, depending upon the partnership. Structured finance investments receive quarterly value adjustments by the partners, generally applying the assumption that all such positions will be held to maturity. Annual audits of most partnerships include a review of compliance with the partnership's valuation policies.

Revenue Recognition

Interest and dividend income are recognized when earned. Capital gains and losses are recognized on a trade-date basis. Purchases and sales of investments are also recorded on a trade-date basis.

Securities Lending

The collateral received under securities lending agreements where the Retirement Funds have the ability to spend, pledge, or sell the collateral without borrower default, is included in the Statement of Net Investment Position. Liabilities resulting from these transactions are also included in each fund's net investment position. Additionally, costs associated with securities lending transactions, including broker commissions and lending fees paid to the custodian bank, are reported as investment expenses in the accompanying financial statements. The Statement of Net Investment Position does not include detailed holdings of securities lending collateral by investment classification. Securities lending income for the fiscal year ended June 30, 2015, was $11.0 million, and expenses associated with securities lending were $3.7 million.

Contributions and Withdrawals

Contributions and withdrawals are recorded when received or paid.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

Note 2. The Commingled Trust Fund (CTF) and Plan Specific Investments

The Commingled Trust Fund (CTF) is a diversified pool of investments which is used as an investment vehicle for 14 separate retirement plans and 1 supplemental insurance fund. These plans hold shares in the CTF, which represent a percentage ownership in the pool of investments. Plans are allowed to purchase or sell shares in the CTF, based on the fair value of the underlying assets on the first business day of each month.

In addition to share ownership in the CTF, each retirement plan holds short-term investments. These short-term investments are referred to as "plan-specific investments" in the accompanying financial statements and are used to manage the cash needs of each retirement plan.

The CTF and Plan Specific Investments consist of the Public Employees' Retirement System (PERS) Plans 1, 2, and 3; Teachers' Retirement System (TRS) Plans 1, 2, and 3; School Employees' Retirement System (SERS) Plans 2 and 3; Law Enforcement Officers' and Firefighters' (LEOFF) Plans 1 and 2; Washington State Patrol (WSP) Retirement Systems Plans 1 and 2; Volunteer Firefighters (VFF), Public Safety Employees' Retirement System (PSERS) Plan 2, and the Higher Education Supplemental Insurance Fund. The CTF includes both the defined benefit and defined contribution portion of PERS Plan 3, SERS Plan 3 and TRS Plan 3, which are hybrid defined benefit/defined contribution plans. The participants also have the option to invest their defined contributions in other external options. These additional options are not reflected in the accompanying financial statements, as the accounting responsibility lies with the DRS for these invested balances.

Note 3. Breakdown of Plan Assets

The Schedule of Participation presents the net investment position broken down by ownership by the various pension plans. "DC" means "defined contribution" and "DB" means "defined benefit," two different types of retirement plans.

Schedule of Participation

RETIREMENT PLANS:	Commingled Trust Fund	Plan-Specific Investments	Total Plan Net Assets	Percent of Plan Assets
HIGHER ED. SUPPLEMENTAL INSURANCE FUND	$ -	$ 33,201,623	$ 33,201,623	Trace
LEOFF 1	5,608,047,820	906,257	5,608,954,077	6.9%
LEOFF 2	9,800,690,096	16,103,583	9,816,793,679	12.0%
PERS 1	7,555,403,136	2,216,525	7,557,619,661	9.3%
PERS 2/3 (DC and DB Plans)	30,870,546,722	17,018,808	30,887,565,530	37.8%
PUBLIC SAFETY EMPLOYEES 2	346,823,462	3,400,861	350,224,323	0.4%
SCHOOL EMPLOYEES 2/3 (DC and DB Plans)	5,305,168,386	6,555,733	5,311,724,119	6.5%
STATE PATROL 1	1,073,521,759	201,100	1,073,722,859	1.3%
STATE PATROL 2	35,385,815	500,464	35,886,279	Trace
TEACHERS 1	6,067,432,672	3,113,342	6,070,546,014	7.4%
TEACHERS 2/3 (DC and DB Plans)	14,730,137,473	31,694,994	14,761,832,467	18.1%
VOLUNTEER FIREFIGHTERS	187,355,031	375	187,355,406	0.3%
Total Net Investment Position at June 30, 2015	**$ 81,580,512,372**	**$ 114,913,665**	**$ 81,695,426,037**	**100.0%**

Note 4. Fees and Expenses

Investment fees and expenses are accounted for as a reduction of investment income or are netted directly from the asset value of the Retirement Fund investments. These fees include investment management fees and commissions, investment consultant fees, legal fees, and other investment management related expenses, and are summarized in the Schedule of Investment Fees and Expenses. The WSIB operating expenses are charged to the funds based upon actual costs incurred to manage the investments. The WSIB operating expenses are allocated to the funds under management, based on relative market values, in accordance with state statutes.

Schedule of Investment Fees and Expense

	Fees Paid	Netted Fees *	Total Fees	Net Assets Under Management
EQUITY SECURITIES:				
Public Equity Active Management	$ 50,487,666	$ -	$ 50,487,666	$ 13,870,377,061
Public Equity Passive Management	2,366,132	2,873,973	5,240,105	16,365,428,030
ALTERNATIVE INVESTMENTS:				
Private Equity	171,240,415	11,764,566	183,004,981	18,480,406,294
Real Estate	20,318,892	12,075,791	32,394,683	11,979,687,851
Tangible Assets	39,010,009	-	39,010,009	1,631,476,926
CASH MANAGEMENT	2,016,947	-	2,016,947	1,608,695,733
DEBT SECURITIES	-	-	-	17,759,354,142
OTHER FEES:				
Consultants and Accounting	1,873,240	-	1,873,240	NA
Legal Fees	1,333,707	-	1,333,707	NA
Research Services	2,021,502	-	2,021,502	NA
Securities Lending Rebates and Fees	3,729,293	-	3,729,293	NA
Miscellaneous Fees	203,222	-	203,222	NA
	$ 294,601,025	$ 26,714,330	$ 321,315,355	$ 81,695,426,037

* Netted fees are included in unrealized gains (losses) in the accompanying financial statements

Note 5. Unfunded Commitments

The Retirement Funds have entered into a number of agreements that commit the Retirement Funds, upon request, to make additional investment purchases up to predetermined amounts. As of June 30, 2015, the Retirement Funds had a total of $20.6 billion in unfunded commitments in the following asset classes (in millions):

Private Equity	$11,259
Real Estate	$7,391
Innovation Portfolio	$22
Tangible Assets	$1,968

Note 6. Public Employees' Retirement System Plan 3, Teachers' Retirement System Plan 3, and the School Employees' Retirement System Plan 3

The financial statements only include the portion of PERS Plan 3, TRS Plan 3, and SERS Plan 3, which are invested in the CTF. The CTF does not include PERS Plan 3, TRS Plan 3, or SERS Plan 3 self-directed investments, which are accounted for and reported on by the DRS.

Note 7. Deposit and Investment Risk Disclosures

Custodial Credit Risk

Custodial credit risk is the risk that in the event a depository institution or counterparty fails, the Retirement Funds will not be able to recover the value of its deposits, investments, or collateral securities. As of June 30, 2015, investment securities (excluding cash, cash equivalents, and repurchase agreements held as securities lending collateral) are registered and held in the name of the WSIB, for the benefit of the Retirement Funds, and are not exposed to custodial credit risk. There are no general policies relating to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. The risk is managed within the portfolios using effective duration, which is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Increases in prevailing interest rates generally translate into decreases in fair values of fixed income investments. The Retirement Funds' fixed income investments are to be actively managed to meet or exceed the return of the Barclays Capital Universal Index, with volatility similar to or less than the index. The fixed income portfolio's duration is to be targeted within plus or minus 20 percent of the duration of the portfolio's performance benchmark. As of June 30, 2015, the Retirement Funds' duration was within the duration target of this index.

Schedule 1 and 2 provide information about the interest rate risks associated with the Retirement Funds' investments, as of June 30, 2015. The schedules display various asset classes held by maturity in years, effective durations, and credit ratings. All debt securities are reported using the average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity for these securities, taking into account possible prepayments of principal.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Retirement Funds' investment policies limit the fixed income securities to investment grade or higher at the time of purchase. Investment grade securities are those fixed income securities with a Moody's rating of Aaa to Baa or a Standard and Poor's rating of AAA to BBB. The Retirement Funds' rated debt investments as of June 30, 2015, were rated by Moody's and/or an equivalent national rating organization. Investment types with multiple ratings are presented in Schedule 2, using the Moody's rating scale.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Retirement Funds' policy states no corporate fixed income issue shall exceed 3 percent of cost at the time of purchase or 6 percent of fair value thereafter of the fund, and no high yield issues shall exceed 1 percent of cost or 2 percent of fair value of the fund. There was no concentration of credit risk exceeding these policy guidelines, as of June 30, 2015.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Retirement Funds do not have a formal policy to limit foreign currency risk. The Retirement Funds manage their exposure to fair value loss by requiring their international securities investment managers to maintain diversified portfolios by sector and by issuer, to limit foreign currency and security risk. The Retirement Funds exposure to foreign currency risk is presented in Schedule 3, which provides information on deposits and investments held in various foreign currencies. Private equity and real estate are presented according to the financial reporting currency of the individual funds and is not a presentation of currency exposure relating to the underlying holdings. The schedule is stated in U.S. dollars. In addition, the CTF has foreign currency exposure at June 30, 2015, of $822.6 million invested in various international commingled equity index funds.

Note 8. Securities Lending

Washington State law and WSIB policy permit Retirement Funds to participate in securities lending programs to augment investment income. The WSIB has entered into an agreement with State Street Corporation to act as agent for the WSIB in securities lending transactions. As State Street Corporation is the custodian bank for the WSIB, it is counterparty to securities lending transactions.

The fair value of the securities on loan at June 30, 2015, was approximately $1.4 billion. The securities on loan remain in the Statement of Net Investment Position in their respective categories. At June 30, 2015, cash collateral received totaling $.8 billion is reported as a securities lending obligation, and the fair value of the re-invested cash collateral totaling $.8 billion is reported as security lending collateral in the Statement of Net Investment Position. Securities received as collateral where the Retirement Funds do not have the ability to pledge or sell the collateral unless the borrower defaults, are not reported as assets and liabilities in the Statement of Net Investment Position. Total securities received as collateral at June 30, 2015, was $.6 billion.

Debt and equity securities were loaned and collateralized by the Retirement Funds' agent with cash and U.S. Government or U.S. Agency Securities, including U.S. Agency Mortgage Backed Securities (exclusive of letters of credit). When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest of the loaned securities. The following table summarizes the securities held from reinvestment of cash collateral and securities received as collateral at June 30, 2015.

In Millions	Cash Collateral	Non Cash Collateral	Total
Mortgage Backed Securities	$ -	$ 342.0	$ 342.0
Repurchase Agreements	293.2	-	293.2
Yankee CD	196.4	-	196.4
Treasuries	61.8	296.4	358.2
Cash Equivalents and Other	291.7	-	291.7
Total Collateral Held	**$ 843.1**	**$ 638.4**	**$ 1,481.5**

During Fiscal Year 2015, securities lending transactions could be terminated on demand by either the Retirement Funds or the borrower. As of June 30, 2015, the cash collateral held had an average duration of 22.5 days and an average weighted final maturity of 79.7 days. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. No more than 20 percent of the total on loan value can be held by a specific borrower. Collateral investment guidelines specifically prohibit European domiciled holdings. There are no restrictions on the amount of securities that can be lent.

Securities were lent with the agreement they would be returned in the future for exchange of the collateral. State Street Corporation indemnified the WSIB by agreeing to purchase replacement securities, or return the cash collateral in the event a borrower failed to return the loaned securities or pay distributions thereon. State Street Corporation's responsibilities included performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable federal regulations concerning securities lending.

During Fiscal Year 2015, there were no significant violations of legal or contractual provisions, no failures by any borrowers to return loaned securities or to pay distributions thereon. During Fiscal year 2015, the Retirement Funds incurred no losses resulting from a default by either the borrowers or the securities lending agents.

Note 9. Derivatives

Retirement Funds are authorized to utilize various derivative financial instruments, including financial futures, forward contracts, interest rate swaps, credit default swaps, equity swaps, and options. Derivative transactions involve, to varying degrees, market and credit risk. At June 30, 2015, the Retirement Funds held investments in financial futures and forward currency contracts that are recorded at fair value with changes in value recognized in investment income in the Statement of Changes in Net Investment Position in the period of change. For accounting and reporting purposes, the derivative instruments are considered investment derivatives and not hedging derivatives.

Derivatives are generally used to achieve the desired market exposure of a security, index or currency, adjust portfolio duration, or rebalance the total portfolio to the target asset allocation. Derivative contracts are instruments that derive their value from underlying assets, indices, reference interest rates, or a combination of these factors. A derivative instrument could be a contract negotiated on behalf of the Retirement Funds and a specific counterparty. This would typically be referred to as an over the counter (OTC) contract, such as forward contracts. Alternatively, a derivative instrument such as futures, could be listed and traded on an exchange and referred to as "exchange traded."

Inherent in the use of OTC derivatives, the Retirement Funds are exposed to counterparty credit risk on all open OTC positions. Counterparty credit risk is the risk that a derivative counterparty may fail to meet its payment obligation under the derivative contract. As of June 30, 2015, the Retirement Funds counterparty risk was deemed insignificant.

Futures contracts are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price. Gains and losses on futures contracts are settled daily, based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. The exchange assumes the risk that the counterparty will not pay and requires margin payments to minimize such risk. Futures are generally used to achieve the desired market exposure of a security or index, or rebalance the total portfolio.

Forward currency contracts are agreements to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. These forward commitments are not standardized and carry counterparty credit risk due to the possible nonperformance by a counterparty. The maximum potential loss is the aggregate face value in U.S. dollars at the time the contract was opened; however, the likelihood of such loss is remote. At June 30, 2015, the Retirement Funds had outstanding forward currency contracts with a net unrealized gain of $5.1 million. At June 30, 2015, foreign exchange contracts receivable and payable reported on the statement of net investment position consisted primarily of forward currency contracts. The aggregate forward currency exchange contracts receivable and payable were $1.96 billion and $1.96 billion respectively. The contracts have varying maturity dates ranging from August 12, 2015, to September 16, 2015.

The Retirement Funds' fixed income portfolio held derivative securities consisting of collateralized mortgage obligations with a fair value of $91.9 million at June 30, 2015. Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of use and holdings of derivative securities by passive equity index fund managers is unavailable.

Derivatives which are exchange traded are not subject to credit risk. The counterparty credit ratings for forward currency contracts that are subject to credit risk outstanding at June 30, 2015, had a credit rating of no less than A3, using the Moody's rating scale.

		Changes in Fair Value - Included in Investment Income	Fair Value at June 30, 2015 - Investment Derivative	
	Classification	Amount	Amount	Notional
FUTURES CONTRACTS:				
Bond Index Futures	Investment	$ 25,673,551	$ (3,555,240)	841,300,000
Equity Index Futures	Investment	(3,765,627)	(8,476,198)	18,048,328
		$ 21,907,924	$ (12,031,438)	859,348,328
FORWARD CURRENCY CONTRACTS	Investment	$ 55,940,554	$ 5,146,009	1,960,628,296

Note 10. Summary of Investment Policy

Per RCW 43.33A.030, trusteeship of the Retirement Funds is vested within the voting members of the WSIB. The Legislature has established a standard of care for investment of these funds in RCW 43.33A.140. Additionally, the WSIB and its staff must comply with other state laws, such as the Ethics in Public Service Act, Chapter 42.52 RCW, as it makes its investment decisions and seeks to meet the following investment objectives.

The WSIB is authorized to invest in the following: U.S. Treasury Bills; discount notes; repurchase agreements; reverse repurchase agreements; banker's acceptances; commercial paper; guaranteed investment contracts; U.S. Government and Agency (government sponsored corporations eligible for collateral purposes at the Federal Reserve) securities; non-U.S. dollar bonds; investment grade corporate bonds; non-investment grade corporate bonds; publicly traded mortgage backed securities; privately placed mortgages; private placements of corporate debt; U.S. and foreign common stock; U.S. preferred stock; convertible securities; private equity including but not limited to investment corporations, partnerships, and limited liability companies for venture capital, leveraged buy-outs, real estate and other tangible assets, or other forms of private equity; asset backed securities; and derivative securities including futures, options, options on futures, forward contracts, and swap transactions. There have been no violations of these investment restrictions during Fiscal Year 2015.

Strategic and Performance Objectives

In accordance with RCW 43.33A.110, the portfolio is managed to maximize return at a prudent level of risk.

The Retirement Funds return objective is to exceed the return of the following measures:

- Passive Benchmark: A custom benchmark consisting of public market indices, weighted according to asset allocation targets. Currently, the passive benchmark is comprised of 69 percent MSCI All Country World IMI Index Net, with U.S. Gross and 31 percent Barclays Capital Universal.

- Implementation Value Added (IVA): A custom benchmark consisting of the publicly-available indices, as defined in each asset class's policy, weighted according to asset allocation targets. This IVA benchmark differs from the passive benchmark, as it is not an investable benchmark due to the un-investable premium added to the tangible assets and private equity passive benchmarks.

The Retirement Fund Asset Allocation

The WSIB establishes asset allocation targets that must be considered at all times when making investment decisions. The asset mix may deviate from the target. Deviations greater than predetermined acceptable levels require rebalancing back to the target. When an asset class exceeds its range, the goal of rebalancing will be to meet the target allocation within consideration of the other remaining asset classes.

Asset Class	Target	Policy Range	Asset Class Range
Fixed Income	20%	16% - 24%	+ or - 4%
Tangible Assets	5%	3% - 7%	+ or - 2%
Real Estate	15%	12% - 18%	+ or - 3%
Global Equity	37%	32% - 42%	+ or - 5%
Private Equity	23%	19% - 27%	+ or - 4%
Innovation Portfolio	0%	0% - 5%	5%
Cash	0%	0% - 3%	3%

The Retirement Funds goal is to reach the target (optimal portfolio) as quickly as possible. Because of the illiquidity and time lagging nature of the Real Estate, Tangible Assets, and Private Equity investments, it is assumed that it will take time to achieve the target. It is anticipated the optimal target will be reached sometime in 2017. The asset allocation for the CTF is formally reviewed at least every 4 years. The allocation policy is reviewed more frequently if there has been a fundamental change in the structure of the capital markets or in the underlying cash flow or liability structure of the retirement systems.

Assets will be rebalanced across asset classes, as appropriate, when market values fall outside policy ranges. Rebalancing is accomplished by first using normal cash flows and second through reallocations of assets across asset classes. In cases of a major rebalancing, the Retirement Funds can utilize futures, forward contracts, and options in order to maintain exposure within each asset class and reduce transaction costs. Major rebalancing can occur to bring asset classes within their target ranges or when the Retirement Funds are transitioning managers.

Public Markets Equity

To achieve the performance and diversification objectives of the Retirement Funds, the Public Markets equity program seeks to:

- Achieve the highest return possible, consistent with prudent risk management and the desire for downside protection with passive equity strategies as the default whenever strategies with better risk/return profiles cannot be identified
- Provide diversification to the Retirement Funds' overall investment program
- Maintain liquidity in public equity
- Maintain transparency into all public equity strategies, to the extent possible.

General Strategies

- The public markets equity portion of the Retirement Funds invests in publicly traded equities globally, including equity securities in the U.S., developed non-U.S., and emerging markets. The program has a global benchmark, currently the MSCI All Country World Investable Market Index (MSCI ACWI IMI).
- A mix of external managers approved by the WSIB Board will be used to implement the program.

- Passive management delivers broad diversified equity market exposure at low cost and is used when active managers cannot be identified and monitored appropriately. Passive management is also used when it is considered an appropriate alternative to active management, typically in more efficient markets.
- Active management is used when the Retirement Funds can identify, access, and monitor successful managers in markets that are less efficient. Active management seeks to enhance the risk/return profile of the program.

Asset Allocation

The U.S. and non-U.S. allocations for the public equity program are managed within the ranges presented below:

- Maintain a U.S. equity weight for the CTF within a range of +/- 5 percent of the U.S. weight in the specified global benchmark;
- Maintain a non-U.S. equity weight for the CTF within a range of +/- 5 percent of the non-U.S. weight in the specified global benchmark; and
- Maintain an aggregate emerging markets exposure in the public equity securities of -5 percent to +10 percent of the specified global market benchmark.

Fixed Income

The fixed income segment is to be managed to achieve the highest return possible consistent with the desire to control asset volatility, emphasize high yield to maturity opportunities to add value through active management, provide diversification to the overall investment program, and to meet or exceed the return of the Barclays Capital Universal Bond Index, with volatility similar to or less than the index.

Permissible fixed income market segments include:

- U.S. Treasuries and Government Agencies
- Credit Bonds
- Investment Grade Mortgage-Backed Securities as defined by Barclays Capital Global Family of Fixed Income Indices
- Investment Grade Asset-Backed Securities as defined by Barclays Capital Global Family of Fixed Income Indices
- Investment Grade Commercial Mortgage-Backed Securities as defined by Barclays Capital Global Family of Fixed Income Indices
- Convertible Securities
- Non-Dollar Bonds
- Washington State Housing Finance Commission taxable municipal bonds up to a total of $50 million with a maximum of $10 million purchased per year.

Other fixed income segments and instruments may be added from time to time as they are developed or deemed appropriate.

Fixed Income Portfolio Constraints

- RCW 43.33A.140 prohibits a corporate fixed income issues cost from exceeding 3 percent of the Retirement CTF's market value at the time of purchase, and its market value from exceeding 6 percent of the Retirement CTF's market value at any time. The Retirement Funds are managed with a more restrictive concentration constraint than required by the cited RCW. Exposure to any corporate issuer will not exceed 3 percent of the Retirement CTF Fixed Income Portfolio's market value.
- The par value of bonds from any one issuer with a below investment grade rating (as defined by Barclays Capital Global Family of Fixed Income Indices) shall not exceed 1 percent of the total portfolio's par value.
- Total market value of below investment grade credit bonds (as defined by Barclays Capital Global Family of Fixed Income Indices) shall not exceed 15 percent of the market value of the fixed income portfolio.
- Although below investment grade mortgage-backed, asset-backed, or commercial mortgage-backed securities may not be purchased, portfolio holdings that are downgraded to those levels or are no longer rated may continue to be held.
- The total market value of below investment grade mortgage-backed, asset-backed, and commercial mortgage-backed securities shall not exceed 5 percent of the market value of the fixed income portfolio.

- The fixed income portfolio's duration is to be targeted within plus or minus 20 percent of the duration of the portfolio's performance benchmark, the Barclays Capital Universal Index.

Target Allocations for the Fixed Income Sectors:

	Range
U.S. Treasuries and Government Agencies	10% – 45%
Credit Bonds	10% – 80%
Asset Backed Securities	0% – 10%
Commercial Mortgage Backed Securities	0% – 10%
Mortgage Backed Securities	5% – 45%

Private Equity Investing

The Retirement Funds can invest in any appropriate private equity investment opportunity which has the potential for returns superior to traditional investment opportunities and which is not prohibited by the WSIB's policies or by law. These investment types are generally divided into venture capital, corporate finance, growth equity, special situations, distressed, mezzanine, and other investments. Private equity investments are made either through limited partnership or direct investment vehicles.

The objective of the portfolio is to achieve superior total returns compared to traditional asset classes and is diversified away from traditional capital market risks. The portfolio is managed to meet or exceed the returns of the Russell 3000 (total time-weighed return including dividends), by 300 basis points in the long term. To meet the return and plan objectives, the private equity portfolio has diversified investments in companies in a variety of growth stages. The portfolio also includes a broad cross-section of opportunities in different industries and geographic regions.

Real Estate Program

The WSIB's Real Estate Program is an externally managed pool of selected partnership investments, intended to provide alternative portfolio characteristics when compared to traditional stock and bond investments. The majority of the WSIB's partnerships invest in institutional-quality real estate assets that are leased to third parties. The combination of income generated from bond-like lease payments, coupled with the hard asset qualities of commercial real estate, combine to generate returns that are expected to fall between the return expectations for fixed income and equities over the long term. The real estate portfolio is managed to deliver risk-adjusted returns that are consistent with the WSIB's long-term return expectations for the asset class. The Retirement Fund's real estate partnerships typically invest in private real estate assets that are held for long-term income and appreciation. Many of the Retirement Fund's investment partnerships do not involve co-investment with other financial entities, thereby providing the WSIB with control provisions, related transactions, and ongoing operational decisions for annual capital expenditures.

Volatility in the real estate portfolio is minimized through a combination of the following factors:

- The majority of the Retirement Fund's partners own real estate assets in a private investment form. which are not subject to public market volatility
- Real estate capital is diversified among a host of partners with varying investment styles
- Partnership assets are invested in numerous economic regions, including foreign markets, and in various property types
- Retirement Fund's partners invest at different points within the properties' capital structure and life cycle.

The WSIB's current benchmark for real estate seeks to earn an 8 percent annual investment return over a rolling 10-year period.

Innovation Portfolio

The innovation portfolio investment strategy is to provide WSIB with the ability to invest in assets that fall outside of traditional asset classes and to provide the WSIB with comfort and demonstrated success before committing large dollar amounts to the strategy. The overall benchmark for the innovation portfolio is the weighted average of the underlying benchmark for each asset in the portfolio.

Currently, there are 3 investment strategies in the innovation portfolio, 2 involving private partnerships, and 1 investing in public equities. Their individual holdings have been presented according to asset class on the Statement of Net Investment Position.

Tangible Assets

The primary goal of the tangible asset portfolio is to generate a long-term, high quality, stable income stream. The secondary goal is to generate appreciation approximately commensurate with inflation. The structure of the investments are primarily targeted to those funds, separate accounts, or tangible asset operating companies providing the WSIB, with the most robust governance provisions related to acquisition, dispositions, debt levels, and ongoing operational decisions for annual capital expenditures. The tangible asset portfolio invests in a number of sectors, but the primary focus is infrastructure, timber, and natural resource rights (oil and natural gas).

The WSIB's current return objective for tangible assets calls for a target benchmark of 4 percent above the U.S. Consumer Price Index over a long-term investment horizon defined as at least 5 years.

Note 11. Dollar Weighted Returns

The dollar weighted returns for the CTF for each fiscal year end are as follows:

Fiscal Year Ended	Dollar Weighted Return
2015	4.58%
2014	18.88%
2013	12.35%
2012	1.35%
2011	21.14%
2010	13.27%
2009	-22.83%
2008	-1.19%
2007	21.24%
2006	16.70%

Schedule 1: Schedule of Maturities and Credit Quality

Investment Type	Total Fair Value	Maturity: Less than 1 year	Maturity: 1-5 years	Maturity: 6-10 years	Maturity: More than 10 years	Effective Duration
Mortgage and Other Asset Backed Securities	$ 1,585,736,479	$ 537,515,732	$ 1,013,488,601	$ 19,967,901	$ 14,764,245	2.42
Corporate Bonds	9,127,576,692	450,265,293	4,102,530,476	3,126,281,446	1,448,499,477	5.97
U.S. Government and Agency Securities	6,061,063,362	560,576,774	4,430,546,228	764,763,905	305,176,455	4.09
Foreign Government and Agency Securities	1,084,594,864	-	478,760,384	399,335,403	206,499,077	5.76
Total Retirement Funds Investment Categorized	17,858,971,397	$ 1,548,357,799	$ 10,025,325,689	$ 4,310,348,655	$ 1,974,939,254	5.01*
Investments Not Required to be Categorized						
Cash and Cash Equivalents	2,152,830,798					
Equity Securities	29,776,691,792					
Alternative Investments	32,055,690,438					
Total Investments Not Categorized	63,985,213,028					
Total Investments	$ 81,844,184,425					

**** Excludes cash balances in calculation***

Schedule 2: Additional Credit Rating Disclosures

Moodys Equivalent Rating	Total Fair Value	Investment Type: Mortgage and Other Asset Backed Securities	Investment Type: Corporate Bonds	Investment Type: U.S. Government and Agency Securities	Investment Type: Foreign Government and Agency Securities
Aaa	$ 8,241,240,727	$ 1,576,670,825	$ 448,882,628	$ 6,061,063,362	$ 154,623,912
Aa1	75,933,507	-	17,690,096	-	58,243,411
Aa2	161,914,192	-	108,170,354	-	53,743,838
Aa3	847,248,685	-	685,547,353	-	161,701,332
A1	550,175,088	765,326	549,409,762	-	-
A2	683,167,422	-	683,167,422	-	-
A3	915,515,040	-	835,879,447	-	79,635,593
Baa1	1,235,660,585	-	1,189,824,150	-	45,836,435
Baa2	1,639,883,468	7,205,625	1,328,323,436	-	304,354,407
Baa3	2,444,426,877	-	2,274,567,888	-	169,858,989
Ba1 or Lower	1,063,805,806	1,094,703	1,006,114,156	-	56,596,947
Total	$ 17,858,971,397	$ 1,585,736,479	$ 9,127,576,692	$ 6,061,063,362	$ 1,084,594,864

Schedule 3: Foreign Currency Exposure

Foreign Currency Denomination	Investment Type In U.S. Dollar Equivalent						
	Cash and Cash Equivalents	Debt Securities	Equity Securities	Alternative Assets	Open Foreign Exchange Contracts - Net	Total	Percent of Total Investment Balances
AUSTRALIAN DOLLAR	$ 7,133,084	$ 292,665,070	$ 470,617,888	$ 26,128,562	$ 253,562	$ 796,798,166	1.0%
BRAZILIAN REAL	233,073	242,800,847	130,843,008	-	395	373,877,323	0.5%
CANADIAN DOLLAR	11,494,580	-	725,668,434	-	(1,405,184)	735,757,830	0.9%
SWISS FRANC	(24,797)	-	942,733,514	-	186,731	942,895,448	1.2%
CHILEAN PESO	-	63,980,669	5,328,779	-	-	69,309,448	0.1%
YUAN RENMINBI	278,046	57,613,828	-	-	(329)	57,891,545	0.1%
COLOMBIAN PESO	-	102,035,252	-	-	-	102,035,252	0.1%
DANISH KRONE	286,717	-	206,436,665	-	(628,900)	206,094,482	0.3%
EURO CURRENCY	1,820,460	-	3,104,461,435	2,379,773,124	4,137,577	5,490,192,596	6.7%
POUND STERLING	12,273,695	-	2,283,905,746	-	5,754,251	2,301,933,692	2.8%
HONG KONG DOLLAR	1,984,941	-	662,835,351	-	(61)	664,820,231	0.8%
INDONESIAN RUPIAH	137,431	50,618,227	62,725,432	-	(240)	113,480,850	0.1%
NEW ISRAELI SHEQEL	218,674	-	43,715,085	-	(153,016)	43,780,743	0.1%
INDIAN RUPEE	250,352	109,523,190	147,603,249	-	-	257,376,791	0.3%
JAPANESE YEN	16,096,980	-	2,342,284,093	-	(2,768,619)	2,355,612,454	2.9%
SOUTH KOREAN WON	289,109	-	223,738,144	-	(118)	224,027,135	0.3%
MEXICAN PESO (NEW)	64,989	102,865,739	64,422,036	-	(17,528)	167,335,236	0.2%
MALAYSIAN RINGGIT	6,758	56,526,623	62,923,910	-	-	119,457,291	0.1%
NORWEGIAN KRONE	1,041,952	-	64,357,232	-	127,342	65,526,526	0.1%
NEW ZEALAND DOLLAR	120,524	-	12,842,433	-	13,540	12,976,497	Trace
PHILIPPINE PESO	3,907	38,988,689	24,614,683	-	-	63,607,279	0.1%
SWEDISH KRONA	800,467	-	440,278,677	-	(370,675)	440,708,469	0.5%
SINGAPORE DOLLAR	1,240,768	-	171,500,581	-	(4,439)	172,736,910	0.2%
THAILAND BAHT	(524)	45,836,435	53,360,326	-	-	99,196,237	0.1%
TURKISH LIRA	-	51,598,743	73,002,951	-	-	124,601,694	0.2%
NEW TAIWAN DOLLAR	1,271,981	-	166,792,239	-	-	168,064,220	0.2%
SOUTH AFRICAN RAND	507,095	-	121,421,119	-	13,052	121,941,266	0.1%
OTHER	127,122	77,177,538	54,315,344	-	(3,198)	131,616,806	0.1%
Total Foreign Currency Exposure	$ 57,657,384	$ 1,292,230,850	$ 12,662,728,354	$ 2,405,901,686	$ 5,134,143	$ 16,423,652,417	20.1%

LABOR AND INDUSTRIES' FUNDS

Independent Auditor's Report

To the Members of the Washington State Investment Board
Olympia, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the Labor and Industries' Funds of the State of Washington as managed by the Washington State Investment Board (the Labor and Industries' Funds), which comprise the statement of net investment position as of June 30, 2015, and the related statement of changes in net investment position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the investment position of the Labor and Industries' Funds as of June 30, 2015, and the changes in net investment position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Eide Bailly LLP

Boise, Idaho
September 30, 2015

Management Discussion and Analysis

Management's Discussion and Analysis for the Labor & Industries' Funds (L&I Funds) of Washington State, managed by the Washington State Investment Board (WSIB), is presented as an introduction to the financial statements. It is meant to assist the reader in understanding the financial statements by providing an overall review of the financial activities during the year, as well as to provide a comparison to the prior year's activities and results. The WSIB manages funds for other Washington State departments. This section represents only the L&I Funds portion. The L&I Funds are the second largest pool of investments managed by the WSIB.

The financial statements and footnotes follow this section of the report. The Statement of Net Investment Position provides information on the types of investments and related assets and liabilities of the L&I Funds. This information is summarized in Table 1, which compares the asset, liability, and net investment balances at June 30, 2015, with those at June 30, 2014. The Statement of Changes in Net Investment Position provides information on investment performance and other increases and decreases in the net investment position of the L&I Funds for the year ended June 30, 2015. This information is summarized in Table 2, which compares the financial activities of the L&I Funds for the year ended June 30, 2015, with those of the year ended June 30, 2014. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements of the L&I Funds.

Investment returns for the significant asset classes and in total for the current fiscal year compared to the prior fiscal year are as follows:

Investment Returns Excluding Supplemental Pension Fund	FY 2015	FY 2014
Debt Securities	1.4%	6.7%
Equity Securities	2.6%	24.0%
Total Investment Return	1.5%	8.4%
Investment Return Supplemental Pension Fund	0.8%	1.0%

As shown in Table 1, the net investment position of the L&I Funds increased by $232.7 million during the fiscal year ended June 30, 2015. Interest and other net investment income reinvested in the fund totaled $489.3 million. Net realized and unrealized losses for the year decreased net investment position by $(273.7) million. Contributions from L&I increased net investment position by $17.1 million.

Table 1 - Summarized Net Investment Position

	2015	2014	Dollar Change	Percent
Cash and Cash Equivalents	$ 135,025,651	$ 306,092,303	$ (171,066,652)	-55.9%
Debt Securities	12,603,336,106	12,309,622,801	293,713,305	2.4%
Equity Securities	1,895,745,913	1,886,836,111	8,909,802	0.5%
Total Investments	**14,634,107,670**	**14,502,551,215**	**131,556,455**	**0.9%**
Collateral Held Under Securities Lending Agreements	68,151,272	4,115,764	64,035,508	1555.9%
Investment Receivables - Other	112,360,722	148,117,088	(35,756,366)	-24.1%
Total Assets	**14,814,619,664**	**14,654,784,067**	**159,835,597**	**1.1%**
Obligations Under Securities Lending Agreements	68,151,272	4,115,764	64,035,508	1555.9%
Investment Payables - Other	10,064,149	146,929,477	(136,865,328)	-93.2%
Total Liabilities	**78,215,421**	**151,045,241**	**(72,829,820)**	**-48.2%**
Net Investment Position	**$ 14,736,404,243**	**$ 14,503,738,826**	**$ 232,665,417**	**1.6%**

The following summarizes the changes within each grouping listed in Table 1:

- Cash and Cash Equivalents decreased by $(171.1) million. This balance represents less than 1 percent of total invested balances and is within policy ranges. Cash can fluctuate within policy targets from year to year, depending on trading volumes and the cash needs of the L&I Funds. Net investment income received from debt securities and cash is invested into money market funds and used within each asset class to reinvest in longer term securities, as the cash becomes available. Transfers to other asset classes from cash balances totaled $(185.7) million during the current fiscal year. Contributions of $17.1 million were invested in cash. The remaining decrease was income reinvested within the fund net of expenses paid.
- Debt securities increased by $293.7 million. Net realized and unrealized losses decreased this asset class by $(320.6) million. During the current fiscal year, the fixed income portfolio was rebalanced, and approximately $225.3 million was transferred from the cash and equity portfolios. Debt securities purchased and not settled by June 30, 2015, decreased debt security balances by $(95.6) million. The remaining increase is from net investment income received and reinvested within the fixed income portfolio. The global low interest rate environment continued in Fiscal Year 2015, due to central bank policies, slow economic growth, and low inflation. In the U.S., the fixed income market experienced low absolute returns and the safest sectors outperformed the riskier ones. The Barclays Universal Index, which includes high yield and emerging markets, underperformed the Barclays Aggregate Index which does not. Treasury yields fell for the first 7 months of the fiscal year and rose for the last 5 months. For the full year, long duration treasuries outperformed short duration ones, but long duration credit underperformed. Credit spreads widened during the year, particularly for commodity producers. At the June meeting of the Federal Open Markets Committee, the Fed expressed optimism about the economy and indicated it could soon raise rates. Fixed income performance was positive for the year as interest earned from coupon payments were greater than the decline in market value of the bond holdings. Relative to their comparable market indices, the L&I funds performed well due to the contributions to return of holdings in credit and securitized.
- Equity securities increased by $8.9 million. Net realized and unrealized gains increased this asset class by $46.9 million, due to positive investment returns in the public equity markets. During the current fiscal year, the equity portfolio was rebalanced, and approximately $(39.6) million of equity securities were sold and the proceeds were reinvested in debt securities. The remaining increase in equity balances was due to net investment income reinvested in the equity portfolio. U.S. equity returned 7.4 percent; non-U.S. equity lost (4.8) percent. The U.S. equity market continued its strong relative performance in fiscal year 2015. The stronger economic environment and tighter monetary conditions relative to other developed countries contributed to U.S. market outperformance. During fiscal year 2015, the U.S. dollar

appreciated due to interest rate differentials, superior U.S. economic growth, and the dollar's safety. The price of oil and other commodities fell significantly, in U.S. dollar-terms, over the fiscal year amid slowing global growth.

- Collateral held and obligations under securities lending agreements increased by $64.0 million. Reported collateral balances in the L&I Funds financial statements represent only cash received as collateral and reinvested. Additional securities received as collateral totaled $38.3 million. Overall securities on loan and collateral held increased by $35.5 million. During the current fiscal year, there was increased demand to borrow shorter term U.S. Government Securities, specifically the 2 and 5 year notes which resulted in higher lending balances.
- Other investment payables increased almost entirely due to open and unsettled security trades at year end. Trading volumes can vary substantially based on the timing of additional cash flows, market movements, and rebalancing of asset classes within a portfolio. Accordingly, there is generally minimal correlation to invested balances.

As shown in Table 2, the net amount contributed by L&I increased by $123.6 million. Net premiums collected by L&I increased due to growth in the number of hours reported by employers, more hours reported by businesses in higher risk classes, and a rate increase in the Medical Aid Account.

Table 2 - Summarized Changes in Net Investment Position

	2015	2014	Dollar Change
Net Investment Income			
Interest, Dividends and Other Investment Income	$ 493,678,690	$ 479,457,436	$ 14,221,254
Net Realized Capital Gains	61,341,713	304,212,311	(242,870,598)
Unrealized Gains (Losses)	(335,002,888)	340,670,717	(675,673,605)
Less:			
Investment Expenses	(1,986,098)	(2,032,967)	(46,869)
WSIB Operating Expenses	(2,396,807)	(2,408,775)	(11,968)
Net Investment Income	**215,634,610**	**1,119,898,722**	**(904,264,112)**
Net Amount Contributed (Withdrawn)	17,030,807	(106,600,225)	(123,631,032)
Net Investment Position - Beginning	**14,503,738,826**	**13,490,440,329**	**1,013,298,497**
Net Investment Position - Ending	**$ 14,736,404,243**	**$ 14,503,738,826**	**$ 232,665,417**

Net investment income decreased from the prior fiscal year by $(904.3) million, almost entirely due to decreases in realized and unrealized gains and losses in the fixed income and equity portfolios. These decreases are the result of lower investment returns from the previous fiscal year. The L&I Funds' equity, fixed income, and total returns are presented in previous pages with market commentary.

The fair value of L&I assets is directly impacted by the returns of the various capital markets within which the WSIB invests. The returns are expected to have a significant effect on financial position and results of operations in the future. However, 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. The WSIB, upon receiving recommendations from L&I staff, WSIB staff, and other investment experts, makes the asset allocation decisions for the L&I assets. The WSIB staff rebalances the L&I Funds' assets as markets fluctuate, pursuant to WSIB policy.

Labor and Industries' Funds Statement of Net Investment Position - June 30, 2015

See notes to financial statements

	Accident Fund	Medical Aid Fund	Pension Reserves Fund	Supplemental Pension Fund	Total	Percent of Total
ASSETS						
Investments:						
CASH AND CASH EQUIVALENTS	$ 29,813,562	$ 34,738,149	$ 44,305,314	$ 26,168,626	$ 135,025,651	0.9%
DEBT SECURITIES						
Mortgage and Other Asset Backed Securities	739,854,691	608,680,155	545,205,534	5,626	1,893,746,006	
Corporate Bonds	3,377,131,087	3,018,890,655	2,526,696,609	46,755,383	8,969,473,734	
U.S. Government and Agency Securities	380,822,094	355,063,950	422,819,399	52,111,723	1,210,817,166	
Foreign Government and Agencies	235,127,992	130,787,123	161,359,561	2,024,524	529,299,200	
Total Debt Securities	4,732,935,864	4,113,421,883	3,656,081,103	100,897,256	12,603,336,106	86.1%
EQUITY SECURITIES						
Commingled Investment Trusts	589,998,853	854,886,591	450,860,469	-	1,895,745,913	
Total Equity Securities	589,998,853	854,886,591	450,860,469	-	1,895,745,913	13.0%
Total Investments	5,352,748,279	5,003,046,623	4,151,246,886	127,065,882	14,634,107,670	100.0%
Collateral Held Under Securities Lending Agreements	26,176,174	-	41,975,098	-	68,151,272	
Investment Earnings Receivable	44,489,597	34,462,337	33,084,146	319,980	112,356,060	
Receivable for Investments Sold	1,996	1,844	822	-	4,662	
Total Assets	5,423,416,046	5,037,510,804	4,226,306,952	127,385,862	14,814,619,664	
LIABILITIES						
Obligations Under Securities Lending Agreements	26,176,174	-	41,975,098	-	68,151,272	
Accounts Payable	34,845	37,897	23,838	6,969	103,549	
Payable for Investments Purchased	-	-	9,960,600	-	9,960,600	
Total Liabilities	26,211,019	37,897	51,959,536	6,969	78,215,421	
NET INVESTMENT POSITION	$ 5,397,205,027	$ 5,037,472,907	$ 4,174,347,416	$ 127,378,893	$ 14,736,404,243	

Labor and Industries' Funds Statement of Changes in Net Investment Position - Year Ended June 30, 2015

See notes to financial statements

	Accident Fund	Medical Aid Fund	Pension Reserves Fund	Supplemental Pension Fund	Total
Net Investment Income					
Investment Income:					
Interest, Dividends and Other Investment Income	$ 195,553,378	$ 152,448,802	$ 144,578,857	$ 1,097,653	$ 493,678,690
Net Realized Capital Gains	17,142,410	10,020,852	34,167,443	11,008	61,341,713
Unrealized Losses	(135,295,109)	(92,074,329)	(107,590,726)	(42,724)	(335,002,888)
Less:					
Investment Expenses	(714,341)	(644,811)	(523,543)	(103,403)	(1,986,098)
WSIB Operating Expenses	(876,791)	(814,543)	(683,342)	(22,131)	(2,396,807)
Net Investment Income	75,809,547	68,935,971	69,948,689	940,403	215,634,610
Net Amount Contributed (Withdrawn)	86,511,791	21,876,543	(98,783,658)	7,426,131	17,030,807
Increase in Net Investment Position	162,321,338	90,812,514	(28,834,969)	8,366,534	232,665,417
Net Investment Position - June 30, 2014	5,234,883,689	4,946,660,393	4,203,182,385	119,012,359	14,503,738,826
Net Investment Position - June 30, 2015	$ 5,397,205,027	$ 5,037,472,907	$ 4,174,347,416	$ 127,378,893	$ 14,736,404,243

Notes to Financial Statements

Note 1. Description of Funds and Significant Accounting Policies

Description of Funds

The L&I Funds consist mainly of the investment of insurance premiums collected from employers in Washington State. The financial statements present only the activity of the L&I Funds, as managed by the WSIB. The WSIB has exclusive control of the investments held by the L&I Funds. The financial statements do not present the financial position and results of operations of the WSIB or L&I.

Basis of Accounting

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States for governments, prescribed by the Governmental Accounting Standards Board (GASB) on the accrual basis of accounting.

Valuation of Investments

Investments are reported at fair value. Fair values are based on published market prices, quotations from national security exchanges, and security pricing services. Investments are adjusted to fair values monthly. Unrealized gains and losses are included as investment income in the Statement of Changes in Net Investment Position.

Revenue Recognition

Interest and dividend income are recognized when earned. Capital gains and losses are recognized on a trade date basis. Purchases and sales of investments are also recorded on a trade date basis.

Securities Lending

The collateral received under securities lending agreements, where the funds have the ability to spend, pledge, or sell the collateral without borrower default, is included in the Statement of Net Investment Position. Liabilities resulting from these transactions are also recorded. Additionally, costs associated with securities lending transactions, including broker commissions and lending fees paid to the custodian bank, are reported as investment expenses in the accompanying financial statements. The Statement of Net Investment Position does not include detailed holdings of securities lending collateral by investment classification. Securities lending income received by the L&I Funds during Fiscal Year 2015 was $1.2 million. Securities lending expenses during the fiscal year totaled $0.1 million.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

Contributions and Withdrawals

Contributions and withdrawals are recorded when received or paid.

Note 2. Fees and Expenses

Investment fees and expenses are accounted for as a reduction of investment income or are netted directly from the asset value of the L&I Fund's investments. These fees include investment management fees and commissions, investment consultant fees, legal fees, and other investment management related expenses. The WSIB operating

expenses are charged to the funds based upon actual costs incurred to manage the investments. The WSIB operating expenses are allocated to the funds under management based on relative market values, in accordance with state statutes.

Note 3. Deposit and Investment Risk Disclosures

Custodial Credit Risk

Custodial credit risk is the risk that in the event a depository institution or counterparty fails, the L&I Funds will not be able to recover the value of its deposits, investments, or collateral securities. As of June 30, 2015, investment securities (excluding cash, cash equivalents, and repurchase agreements held as securities lending collateral) are registered and held in the name of the WSIB, for the benefit of the L&I Funds and are not exposed to custodial credit risk. There are no general policies relating to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. The risk is managed within the portfolios using effective duration, which is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Increases in prevailing interest rates generally translate into decreases in fair values of fixed income investments. As of June 30, 2015, the L&I Funds' portfolio durations were within the duration targets documented in Note 6.

Schedule 1 and 2 provide information about the interest rate risks associated with the L&I Funds' investments, as of June 30, 2015. The schedules display various asset classes held by maturity in years, effective durations, and credit ratings. All debt securities are reported using the average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity for these securities, taking into account possible prepayments of principal.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The L&I Funds' investment policies limit the fixed income securities to investment grade or higher at the time of purchase. Investment grade securities are those fixed income securities with a Moody's rating of Aaa to Baa or a Standard and Poor's rating of AAA to BBB.

The L&I Funds' rated debt investments as of June 30, 2015, were rated by Moody's and/or an equivalent national rating organization. Investment types with corresponding ratings are presented in Schedule 2, using the Moody's rating scale.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The L&I Funds' policy states that corporate fixed income issues cost shall not exceed 3 percent of the Fund's fair value at the time of purchase, nor shall its fair value exceed 6 percent of the Fund's fair value at any time. There was no concentration of credit risk, as of June 30, 2015.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The L&I Funds do not have a formal policy to limit foreign currency risk. The only securities held by the L&I Funds with potential foreign currency exposure at June 30, 2015, consists of $695.0 million invested in an international commingled equity index fund.

Note 4. Securities Lending

Washington State law and WSIB policy permit L&I Funds to participate in securities lending programs to augment investment income. The WSIB has entered into an agreement with State Street Corporation to act as agent for the WSIB in securities lending transactions. As State Street Corporation is the custodian bank for the WSIB, it is counterparty to securities lending transactions.

The fair value of the securities on loan at June 30, 2015, was approximately $102.6 million. The securities on loan remain in the Statement of Net Investment Position in their respective categories. At June 30, 2015, cash collateral received totaling $68.2 million is reported as a securities lending obligation, and the fair value of the re-invested cash collateral totaling $68.2 million is reported as security lending collateral in the Statement of Net Investment Position. Securities received as collateral where the L&I Funds do not have the ability to pledge or sell the collateral, unless the borrower defaults, are not reported as assets and liabilities in the Statement of Net Investment Position. Total securities received as collateral at June 30, 2015, was $38.3 million.

Debt securities were loaned and collateralized by the L&I Funds' agent with cash and U.S. Government or U.S. Agency Securities, including U.S. Agency Mortgage Backed Securities (exclusive of letters of credit). When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest of the loaned securities. The following table summarizes the securities held from reinvestment of cash collateral and securities received as collateral at June 30, 2015.

In Millions:	Cash Collateral	Non Cash Collateral	Total
Mortgage Backed Securities	$ -	$ 38.3	$ 38.3
Repurchase Agreements	23.7	-	23.7
Yankee CD	15.9	-	15.9
Cash Equivalents and Other	28.6	-	28.6
Total Collateral Held	$ 68.2	$ 38.3	$ 106.5

During Fiscal Year 2015, securities lending transactions could be terminated on demand by either the L&I Funds or the borrower. As of June 30, 2015, the cash collateral held had an average duration of 22.5 days and an average weighted final maturity of 79.7 days. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. No more than 20 percent of the total on loan value can be held by a specific borrower. Collateral investment guidelines specifically prohibit European domiciled holdings. There are no restrictions on the amount of securities that can be lent.

Securities were lent with the agreement they would be returned in the future for exchange of the collateral. State Street Corporation indemnified the WSIB by agreeing to purchase replacement securities or return the cash collateral, in the event a borrower failed to return the loaned securities or pay distributions thereon. State Street Corporation's responsibilities included performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable federal regulations concerning securities lending.

During Fiscal Year 2015, there were no significant violations of legal or contractual provisions, no failures by any borrowers to return loaned securities, or to pay distributions thereon. Further, during Fiscal Year 2015, the L&I Funds incurred no losses resulting from a default by either the borrowers or the securities lending agents.

Note 5. Derivatives

L&I Funds are authorized to utilize various derivative financial instruments, including collateralized mortgage obligations, financial futures, forward contracts, interest rate and equity swaps, and options to manage its exposure to fluctuations in interest and currency exchange rates while increasing portfolio returns. Derivative transactions involve, to varying degrees, market and credit risk. The L&I Funds mitigate market risks arising from derivative transactions by requiring collateral in cash and investments to be maintained equal to the securities positions outstanding, thereby prohibiting the use of leverage or speculation. Credit risks arising from derivative transactions are mitigated by selecting and monitoring creditworthy counterparties and collateral issuers.

Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of use and holdings of derivative securities by passive equity index fund managers is unavailable. At June 30, 2015, the only derivative securities held directly by the L&I Funds were collateralized mortgage obligations of $1.3 billion.

Note 6. Summary of Investment Policy

Under RCW 43.33A.030, trusteeship of the L&I Funds is vested in the voting members of the WSIB. The Legislature has established a standard of care for investment of these funds in RCW 43.33A.140. Additionally, the WSIB and its staff must comply with other state laws, such as the Ethics in Public Service Act, Chapter 42.52 RCW, as it makes its investment decisions and seeks to meet the following investment objectives:

Strategic Objectives

In accordance with RCW 43.33A.110, these portfolios are to be managed to limit fluctuations in the industrial insurance premiums, and subject to this purpose, achieve a maximum return at a prudent level of risk. Based on this requirement, the order of the objectives shall be:

- Maintain the solvency of the funds
- Maintain premium rate stability
- Ensure sufficient assets are available to fund the expected liability payments
- Subject to those above, achieve a maximum return at a prudent level of risk.

Performance Objectives

The performance objectives are intended to provide the L&I Funds with a way to measure the success of this investment policy, the overall asset allocation strategy, and the implementation of that strategy over time. First and foremost, the performance of the investment portfolios shall be judged relative to the strategic objectives. With the first three criteria met, the actual rates of return of the portfolios will be compared to the Comparable Market Index (CMI) for each fund. The CMIs are developed and calculated with the goal to construct a hypothetical passive portfolio with the duration, asset allocation, and appropriate mix of fixed income sectors, based on the individual targets for each L&I Fund. The return for each fund's portfolio should not be significantly different from that of its CMI over the long term.

Portfolio Constraints

All assets under the management of the WSIB are to be invested to maximize return at a prudent level of risk, in accordance with RCW 43.33A.110 which states in part that the WSIB is to ". . . establish investment policies and procedures designed to attempt to limit fluctuations in industrial insurance premiums, and subject to this purpose, to maximize return at a prudent level of risk." RCW 43.33A.140 states in part, the WSIB is to ". . . invest and manage the assets entrusted to it with reasonable care, skill, prudence and diligence under circumstances then prevailing which a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an activity of like character and purpose."

No corporate fixed income issue's cost shall exceed 3 percent of the Fund's fair market value.

Asset Allocation

Debt Securities	Equity Securities
Accident Fund	
90%±2	10%±2
Pension Reserve Fund	
90%±2	10%±2
Medical Aid Fund	
85%±3	15%±3
Supplemental Pension Fund	
100%	NA

Asset allocation will be reviewed every 3-4 years, or sooner, if there are significant changes in funding levels or the liability durations.

Market conditions, funding status, and liability assumptions are dynamic, not static; therefore, WSIB staff meets quarterly with L&I staff to review the investment portfolio.

Assets will be rebalanced across asset classes when the fair value of the assets falls outside the policy ranges. The timing of any rebalancing will be based on market opportunities, cash flows, and the consideration of transaction costs; therefore, they need not occur immediately.

Asset Class Structure

Asset class structure is established by the WSIB with guidelines for staff to move assets in order to achieve the L&I Fund's overall objectives.

Equity

Equity Allocation	Target	Range
U.S. Equity	60%	55%-65%
International Equity	40%	35%-45%

The benchmark and structure for U.S. equities will be the broad U.S. stock market, as defined by the Morgan Stanley Capital International U.S. Investable Market Index (MSCI US IMI). The benchmark and structure for international equities will be the Morgan Stanley Capital International All Country World Ex U.S. Investable Market Index (MSCI ACW Ex U.S. IMI). Both portfolios will be 100 percent passively managed in commingled index funds. The commingled funds may use futures for hedging or establishing a long position.

Fixed Income

The fixed income portfolios' structure will vary widely among funds depending upon the required duration target.

Accident Fund (608): within plus or minus 20 percent of a duration target of 7 years.
Pension Reserve Fund (610): within plus or minus 20 percent of a duration target of 7 years.
Medical Aid Fund (609): within plus or minus 20 percent of a duration target of 6 years.
Supplemental Pension Fund (881): a duration of less than 2 years.

The duration targets will be reviewed every 3 years, or sooner, if there are significant changes in the funding levels or the liability durations.

It is the goal of the fixed income portfolios to match the target durations. Although there may be differences from the targets due to market conditions, over any extended period of time those differences should not be material.

Permissible Fixed Income Investments

- U.S. Treasuries and Government Agencies
- Credit Bonds
- Investment Grade Mortgage Backed Securities, as defined by Barclays Capital Global Family of Fixed Income Indices
- Investment Grade Asset Backed Securities, as defined by Barclays Capital Global Family of Fixed Income Indices
- Investment Grade Commercial Mortgage Backed Securities, as defined by Barclays Capital Global Family of Fixed Income Indices
- Investment Grade Non-U.S. Dollar Bonds

Sector Allocations

Sector Allocations are to be managed within the ranges presented below. These targets are long-term in nature. Deviations may occur in the short-term as a result of interim market conditions. However, if a range is exceeded, the portfolios must be rebalanced as soon as it is practical to the target allocations.

Target allocations for the Fixed Income Sectors:	
U.S. Treasuries and Government Agencies	5% - 25%
Credit Bonds	20% - 80%
Asset Backed Securities	0% - 10%
Commercial Mortgage Backed Securities	0% - 10%
Mortgage Backed Securities	0% - 25%

Total market value of below investment grade credit bonds (as defined by Barclays Capital Global Family of Fixed Income Indices) shall not exceed 5 percent of the total market value of the funds. Although below investment grade mortgage backed, asset backed, and commercial mortgage backed securities may not be purchased, portfolio holdings that are downgraded to those levels or are no longer rated and may continue to be held. The total market value of below investment grade mortgage backed, asset backed, and commercial mortgage backed securities shall not exceed 5 percent of the total market value of the funds.

Schedule 1: Schedule of Maturities and Credit Ratings

Investment Type	Total Fair Value	Maturity: Less than 1 year	Maturity: 1-5 years	Maturity: 6-10 years	Maturity: More than 10 years	Effective Duration	Credit Rating
Mortgage and Other Asset Backed Securities	$ 1,893,746,006	$ 295,992,351	$ 1,405,827,716	$ 117,914,647	$ 74,011,292	3.02	Schedule 2
Corporate Bonds	8,969,473,734	468,389,703	3,350,230,868	1,885,623,559	3,265,229,604	7.46	Schedule 2
U.S. Government and Agency Securities	1,210,817,166	7,004,621	891,546,706	25,132,748	287,133,091	7.05	Aaa
Foreign Government and Agencies	529,299,200	38,280,020	282,284,742	152,755,423	55,979,015	4.91	Schedule 2
	12,603,336,106	$ 809,666,695	$ 5,929,890,032	$ 2,181,426,377	$ 3,682,353,002	6.65*	
Investments Not Required to be Categorized							
Commingled Investment Trusts	1,895,745,913						
Cash and Cash Equivalents	135,025,651						
Total Investments Not Categorized	2,030,771,564						
Total L&I Funds Investments	$ 14,634,107,670						

** Excludes cash and cash equivalents*

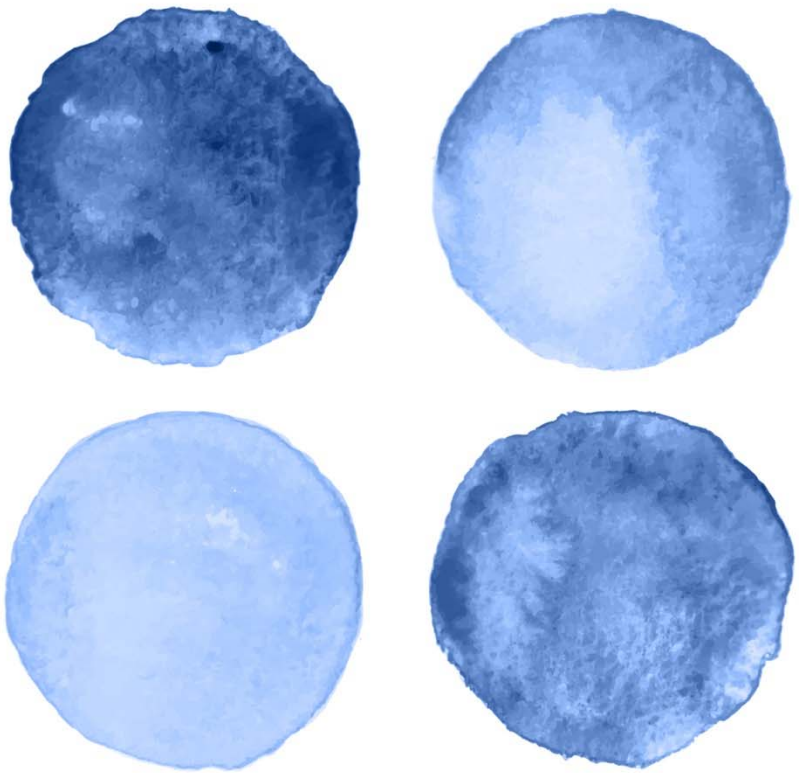
Schedule 2: Additional Credit Ratings Disclosure

Moody's Equivalent Credit Rating	Mortgage and Other Asset Backed Securities	Corporate Bonds	Foreign Government and Agency Securities
Aaa	$ 1,845,423,802	$ 480,823,127	$ 150,888,109
Aa1	-	-	-
Aa2	48,322,204	83,698,312	51,950,369
Aa3	-	1,240,436,769	197,777,835
A1	-	896,830,054	37,408,282
A2	-	1,276,296,300	-
A3	-	1,410,431,053	-
Baa1	-	1,274,529,636	14,453,125
Baa2	-	916,326,331	50,163,500
Baa3	-	-	-
Ba1 or Lower	-	1,390,102,152	26,657,980
Total	$ 1,893,746,006	$ 8,969,473,734	$ 529,299,200

Schedule 3: Foreign Currency Exposure

Foreign Currency Denomination	Equity Securities	Percent of Total Investments
AUSTRALIAN DOLLAR	$ 33,301,447	0.2%
BRAZILIAN REAL	10,713,836	0.1%
CANADIAN DOLLAR	47,375,822	0.3%
SWISS FRANC	43,556,847	0.3%
DANISH KRONE	8,476,764	0.1%
EURO CURRENCY	145,065,717	0.9%
POUND STERLING	102,341,719	0.7%
HONG KONG DOLLAR	53,554,785	0.4%
INDIAN RUPEE	12,703,093	0.1%
JAPANESE YEN	119,408,901	0.8%
SOUTH KOREAN WON	23,355,995	0.2%
MEXICAN PESO (NEW)	6,554,852	Trace
SWEDISH KRONA	15,350,240	0.1%
SINGAPORE DOLLAR	7,589,789	0.1%
NEW TAIWAN DOLLAR	20,694,981	0.1%
SOUTH AFRICAN RAND	11,765,177	0.1%
MISCELLANEOUS FOREIGN CURRENCIES	33,157,896	0.2%
Total Foreign Currency Exposure	$ 694,967,861	4.7%

PERMANENT FUNDS



Independent Auditor's Report

To the Members of the Washington State Investment Board
Olympia, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the Permanent Funds (which is comprised of the American Indian Scholarship Endowment, Agricultural School, Normal School, Common School, Scientific School, and State University) of the State of Washington as managed by the Washington State Investment Board (the Permanent Funds), which comprise the statement of net investment position as of June 30, 2015, and the related statement of changes in net investment position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the investment position of the Permanent Funds as of June 30, 2015, and the changes in net investment position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Eide Bailly LLP

Boise, Idaho
September 30, 2014

Management Discussion and Analysis

Management's Discussion and Analysis for the Permanent Funds of Washington State, managed by the Washington State Investment Board (WSIB), is presented as an introduction to the financial statements. It is meant to assist the reader in understanding the financial statements by providing an overall review of the financial activities during the year, as well as to provide a comparison to the prior year's activities and results. The WSIB manages funds for other Washington State agencies. This section of the report represents only the Permanent Funds portion.

The financial statements and footnotes follow this section of the report. The Statement of Net Investment Position provides information on the types of investments, assets, and liabilities of the Permanent Funds. This information is summarized in Table 1, which compares the asset, liability, and net investment balances at June 30, 2015, with those at June 30, 2014. The Statement of Changes in Net Investment Position provides information on investment performance and other increases and decreases in the net investment position of the Permanent Funds, for the year ended June 30, 2015. This information is summarized in Table 2, which compares the financial activities of the Permanent Funds for the year ended June 30, 2015, with those of the year ended June 30, 2014. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements of the Permanent Funds.

Investment returns for the significant asset classes and in total for each fund for the current fiscal year compared to the prior fiscal year are as follows:

Investment Returns by Asset Class	FY 2015	FY 2014
Debt Securities	1.8%	4.1%
Equity Securities	5.1%	24.6%

Investment Returns by Fund	FY 2015	FY 2014
American Indian Scholarship Endowment	1.8%	3.9%
Agricultural School	2.9%	9.7%
Normal School	2.9%	9.6%
Common School	2.9%	10.0%
Scientific School	2.9%	9.7%
State University	2.9%	9.7%

PERMANENT FUNDS

As shown in Table 1, the net investment position of the Permanent Funds increased by $4.3 million during the fiscal year ended June 30, 2015. Contributions from the Department of Natural Resources (DNR) and Higher Education Coordinating Board increased net investment position by $15.0 million, all of which was invested in fixed income securities. Net realized and unrealized losses decreased net investment position by $(10.7) million. Distributions to beneficiary funds reduced net investment position by $(38.6) million. The remaining increase represents other net investment income reinvested within each portfolio.

Table 1 - Summarized Net Investment Position

	2015	2014	Dollar Change	Percent Change
Cash and Cash Equivalents	$ 1,573,156	$ 2,282,162	$ (709,006)	(31.1%)
Debt Securities	662,871,814	660,835,672	2,036,142	0.3%
Equity Securities	318,916,677	315,920,017	2,996,660	0.9%
Total Investments	**983,361,647**	**979,037,851**	**4,323,796**	**0.4%**
Earnings Receivable	3,207,192	3,281,816	(74,624)	(2.3%)
Total Assets	**986,568,839**	**982,319,667**	**4,249,172**	**0.4%**
Distributions Payable	(3,207,257)	(3,281,760)	(74,503)	(2.3%)
Net Investment Position	**$ 983,361,582**	**$ 979,037,907**	**$ 4,323,675**	**0.4%**

The following summarizes the changes within each grouping listed within Table 1:

- Cash and cash equivalents decreased by $(0.7) million. This cash balance represents less than 1 percent of total invested balances and is within the policy range. Cash is held to cover distributions to beneficiary funds and can fluctuate from period to period.
- Debt securities increased by $2.0 million. Realized and unrealized losses for the fiscal year totaled $(13.7) million, which decreased fixed income net invested balances. Contributions received increased debt securities by $15.7 million. Net earnings reinvested in the fund and subsequently distributed to the beneficiary funds, totaled $25.9 million. The global low interest rate environment continued in Fiscal Year 2015 due to central bank policies, slow economic growth, and low inflation. In the U.S., the fixed income market experienced low absolute returns, and the safest sectors outperformed the riskier ones. The Barclays Universal Index, which includes high yield and emerging markets, underperformed the Barclays Aggregate Index, which does not. Treasury yields fell for the first 7 months of the fiscal year and rose for the last 5 months. For the full year, long duration treasuries outperformed short duration ones, but long duration credit underperformed. Credit spreads widened during the year, particularly for commodity producers. At the June meeting of the Federal Open Markets Committee, the Fed expressed optimism about the economy and indicated it could soon raise rates. Fixed income performance was positive for the year as interest earned from coupon payments were greater than the decline in market value of the bond holdings.
- Equity securities increased by $3.0 million. Realized and unrealized gains increased equity securities by $3.0 million. Net earnings from equity securities received and subsequently distributed to the beneficiary funds totaled $12.9 million. The Commingled Monthly Equity Fund (CMEF) is invested in U.S. equity securities, which over the long term, have provided inflation protection and invested in a strategy that aims to earn higher dividend yield to augment distributions to the beneficiary funds. The U.S. equity market continued its strong relative performance in fiscal year 2015. The stronger economic environment and tighter monetary conditions relative to other developed countries contributed to the U.S. market outperformance. During fiscal year 2015, the U.S. dollar appreciated due to interest rate differentials, superior U.S. economic growth, and the dollar's safety. The price of oil and other commodities fell significantly, in U.S. dollar-terms, over the fiscal year amid slowing global growth. In the U.S., value-oriented securities, including those that pay dividends, lagged growth securities as well as the broad market.
- Earnings receivable and distributions payable balances can fluctuate significantly from month to month depending on income collected during the current period. The WSIB distributes income on a cash basis, and fluctuations in balances from period to period are normal depending on the timing of income payments.

As shown in Table 2, net investment income decreased by $(59.8) million, due almost entirely to the decrease in realized and unrealized gains and losses. Overall returns by asset class and individual Permanent Fund are in the previous pages.

Table 2 - Summarized Changes in Net Investment Position				
	2015	2014	Dollar Change	Percent Change
Net Investment Income				
Interest, Dividends and Other Investment Income	$ 38,808,052	$ 39,666,422	$ (858,370)	(2.2%)
Realized and Unrealized Gains (Losses)	(10,711,799)	48,247,859	(58,959,658)	(122.2%)
Less:				
Investment Fees	(161,479)	(165,042)	(3,563)	(2.2%)
Net Investment Income	**27,934,774**	**87,749,239**	**(59,814,465)**	(68.2%)
Contributions	15,034,000	14,543,995	490,005	3.4%
Distributions to Beneficiaries	(38,645,099)	(39,498,634)	(853,535)	(2.2%)
Net Investment Position - Beginning	**979,037,907**	**916,243,307**	**62,794,600**	6.9%
Net Investment Position - Ending	**$ 983,361,582**	**$ 979,037,907**	**$ 4,323,675**	0.4%

Contributions received from DNR increased by $0.5 million, due to a higher volume of timber sales and other natural resources during the current fiscal year.

Interest, dividends, and other investment income decreased slightly during the current fiscal year, due mainly to timing of income received. This translated to a corresponding decrease in distributions to the beneficiaries. The distribution policy for the CMEF and CMBF is on a cash basis and, accordingly, fluctuations from year to year would be normal based on the timing of income payments.

The fair value of the Permanent Funds' assets is directly impacted by the returns of the various capital markets within which the WSIB invests. The returns are expected to have a significant effect on financial position and results of operations in the future. However, one of the benefits of 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.

Permanent Funds Statement of Net Investment Position - June 30, 2015

See notes to financial statements

	American Indian Scholarship Endowment	Agricultural School	Normal School	Common School	Scientific School	State University	Total	Percent of Total
ASSETS								
Investments:								
Cash and Cash Equivalents	$ 19,259	$ 604,986	$ 103,988	$ 93,997	$ 745,928	$ 4,998	$ 1,573,156	0.2%
Commingled Monthly Bond Fund	336,382	147,387,777	180,796,327	140,257,385	170,152,019	23,941,924	662,871,814	67.4%
Commingled Monthly Equity Fund	-	70,675,233	86,564,637	69,674,274	80,270,916	11,731,617	318,916,677	32.4%
Total Investments	355,641	218,667,996	267,464,952	210,025,656	251,168,863	35,678,539	983,361,647	100.0%
Investment Earnings Receivable	1,025	712,244	873,163	686,818	817,308	116,634	3,207,192	
Total Assets	356,666	219,380,240	268,338,115	210,712,474	251,986,171	35,795,173	986,568,839	
LIABILITIES								
Distributions and Other Payables	1,025	712,281	873,185	686,823	817,307	116,636	3,207,257	
NET INVESTMENT POSITION	$ 355,641	$ 218,667,959	$ 267,464,930	$ 210,025,651	$ 251,168,864	$ 35,678,537	$ 983,361,582	

Permanent Funds Statement of Changes in Net Investment Position - Year Ended June 30, 2015

See notes to financial statements

	American Indian Scholarship Endowment	Agricultural School	Normal School	Common School	Scientific School	State University	Total
Net Investment Income							
Investment Income:							
Interest, Dividends and Other Investment Income	$ 13,333	$ 8,607,585	$ 10,605,200	$ 8,338,750	$ 9,824,262	$ 1,418,922	$ 38,808,052
Net Realized Capital Gains	-	-	-	-	-	-	-
Unrealized Losses	(6,970)	(2,380,742)	(2,927,036)	(2,249,068)	(2,762,709)	(385,274)	(10,711,799)
Less:							
Investment Expenses	(31)	(578)	(438)	(246)	(804)	(36)	(2,133)
WSIB Operating Expenses	(59)	(35,342)	(43,573)	(34,243)	(40,299)	(5,830)	(159,346)
Net Investment Income	6,273	6,190,923	7,634,153	6,055,193	7,020,450	1,027,782	27,934,774
Other Changes in Net Investment Position							
Contributions	-	4,121,000	2,139,000	1,439,000	7,256,000	79,000	15,034,000
Withdrawals and Distributions	(11,741)	(8,571,659)	(10,561,189)	(8,304,247)	(9,783,198)	(1,413,065)	(38,645,099)
	-	-	-	-	-	-	
Increase in Net Investment Position	(5,468)	1,740,264	(788,036)	(810,054)	4,493,252	(306,283)	4,323,675
Net Investment Position - June 30, 2014	361,109	216,927,695	268,252,966	210,835,705	246,675,612	35,984,820	979,037,907
Net Investment Position - June 30, 2015	$ 355,641	$ 218,667,959	$ 267,464,930	$ 210,025,651	$ 251,168,864	$ 35,678,537	$ 983,361,582

Notes to Financial Statements

Note 1. Description of Funds and Significant Accounting Policies

Description of Funds

The Permanent Funds of Washington State include funds established by the State Enabling Act and funds created by private donation. Funds established by the State Enabling Act consist of the Agricultural College Fund, the Normal School Fund, the Common School Fund, the Scientific Fund, and the State University Fund. Originally, land was granted to the state by the federal government at statehood, to establish these permanent funds. The Permanent Funds consist of proceeds from sales of these lands and related natural resources. The proceeds from these sales are deposited by the DNR in each respective Permanent Fund account for investment by the WSIB. The American Indian Scholarship Endowment Fund was created in 1990 to help American Indian students obtain a higher education and currently contains only private donations. The matching funds appropriated by the state for this fund were transferred to the Office of the State Treasurer, pursuant to legislative changes during the fiscal year ended June 30, 2012.

The fixed income investments held by the Permanent Funds are commingled into one fund called the Commingled Monthly Bond Fund (CMBF). The equity investments held by the Permanent Funds are commingled into one fund called the Commingled Monthly Equity Fund (CMEF). The Permanent Funds hold shares of the CMBF and the CMEF. The CMBF and CMEF comply with the Permissible Investments and Portfolio Constraints of the WSIB Permanent Funds' investment policy. The asset classes held in the CMBF and CMEF are presented in Schedule 1 and Schedule 3, respectively.

The financial statements present only the activity of the Permanent Funds as managed by the WSIB. The WSIB has exclusive control of the investments held by the Permanent Funds. The financial statements do not present the financial position and results of operations of the WSIB.

Basis of Accounting

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States for governments, prescribed by the Governmental Accounting Standards Board (GASB) on the accrual basis of accounting.

Valuation of Investments

Investments are reported at fair value. Fair values are based on published market prices, quotations from national security exchanges, and security pricing services. Investments are adjusted to fair value monthly. Unrealized gains and losses are included as investment income in the Statement of Changes in Net Investment Position.

Revenue Recognition

Interest and dividend income are recognized when earned. Capital gains and losses are recognized on a trade-date basis. Purchases and sales of investments are also recorded on a trade date basis.

Contributions and Withdrawal Policy

Cash basis investment income is distributed to the beneficiary funds on a monthly basis, pursuant to the policies of the underlying funds. Income distributed includes interest, dividends, capital gains, and capital losses received during the distribution period. Unrealized gains and losses are not distributed pursuant to state accounting policies and procedures. This is necessary to meet legal requirements regarding the preservation of capital.

Contributions are recorded when received.

Securities Lending

The Permanent Funds invest in the CMBF and the CMEF, which holds the underlying securities and participates in lending activities. Each Permanent Fund owns shares in the CMBF and CMEF and does not directly participate in securities lending activities. Accordingly, the lending activity is not presented within each individual fund in the accompanying financial statements.

The collateral received under securities lending agreements, where the funds have the ability to spend, pledge, or sell the collateral without borrower default, is included in the CMBF and CMEF net investment position. Liabilities resulting from these transactions are also included in each fund's net investment position. Additionally, costs associated with securities lending transactions, including broker rebates and investment management fees paid, are part of the CMBF and CMEF and are not reported directly by the Permanent Funds. Securities lending income received by the CMBF and CMEF during Fiscal Year 2015 was $362,616. Securities lending expenses during the fiscal year totaled $118,844.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

Note 2. Fees and Expenses

Investment fees and expenses are accounted for as a reduction of investment income or are netted directly from the asset value of Permanent Funds, CMEF, and CMBF investments. These fees include investment management fees and commissions, investment consultant fees, legal fees, and other investment management related expenses. The WSIB operating expenses are charged to the funds based upon actual costs incurred to manage the investments. The WSIB operating expenses are allocated to the funds under management based on relative market values, in accordance with state statutes.

Note 3. Deposit and Investment Risk Disclosures

Custodial Credit Risk

Custodial credit risk is the risk that in the event a depository institution or counterparty fails, the Permanent Funds will not be able to recover the value of its deposits, investments, or collateral securities. As of June 30, 2015, investment securities (excluding cash and cash equivalents and repurchase agreements held as securities lending collateral) are registered and held in the name of the WSIB, for the benefit of the Permanent Funds and are not exposed to custodial credit risk. There are no general policies relating to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. The risk is managed within the portfolios using effective duration, which is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. The Permanent Funds' investment policies require the duration to be targeted within plus or minus 20 percent of the duration of the portfolio's benchmark, which is Barclays Capital Aggregate. Increases in prevailing interest rates generally translate into decreases in fair values of those investments.

Schedule 1 and 2 provides information about the interest rate risks associated with the CMBF investments, as of June 30, 2015. The schedules display various asset classes held by maturity in years, effective durations, and credit ratings. Fixed income securities are reported using the average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity for these securities, taking into account possible prepayments of principal.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Permanent Funds' investment policies limit the fixed income securities to investment grade or higher at the time of purchase. Investment grade securities are those fixed income securities with a Moody's rating of Aaa to Baa or a Standard and Poor's rating of AAA to BBB.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Permanent Funds' policy states that corporate fixed income issues cost shall not exceed 3 percent of the fund's fair value at the time of purchase, nor shall its fair value exceed 6 percent of the fund's fair value at any time. There was no concentration of credit risk in the CMBF that exceeded these limits, as of June 30, 2015.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Permanent Funds have no formal policy to limit foreign currency risk. The only foreign securities held by the CMBF and CMEF are traded and denominated in U.S. dollars. The Permanent Funds had no investments with foreign currency risk exposure at June 30, 2015.

Note 4. Securities Lending

Washington State law and WSIB policy permit the Permanent Funds to participate in securities lending programs to augment investment income. The WSIB has entered into an agreement with State Street Corporation to act as agent for the WSIB in securities lending transactions. As State Street Corporation is the custodian bank for the WSIB, it is counterparty to securities lending transactions.

Securities lending activity is part of the commingled funds and, accordingly, is not reported directly by the Permanent Funds in the accompanying financial statements. The Permanent Funds own units in each fund, similar to a mutual fund. The commingled funds engage in all lending activity and report the net lending income activity within the fund as increases in the share price of each fund, until distributed to the beneficiary funds. On June 30, 2015, the fair value of the securities on loan in the CMEF and CMBF was approximately $87.6 million. The securities on loan are reported in Schedules 1 and 3 in their respective categories. At June 30, 2015, cash collateral received totaling $36.6 million is reported as a securities lending obligation, and the fair value of the re-invested cash collateral totaling $36.6 million is reported as security lending collateral in Schedule 1 and 3. Securities received as collateral where the Permanent Funds do not have the ability to pledge or sell the collateral, unless the borrower defaults, are not reported as assets and liabilities in Schedule 1 and 3.

Debt and equity securities were loaned and collateralized by the Permanent Funds' agent with cash and U.S. Government or U.S. Agency Securities, including U.S. Agency Mortgage Backed Securities (exclusive of letters of credit). When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest of the loaned securities. The following table summarizes the securities held from reinvestment of cash collateral and securities received as collateral at June 30, 2015.

In Millions:	Cash Collateral	Non Cash Collateral	Total
Mortgage Backed Securities	$ -	$ 30.7	$ 30.7
Repurchase Agreements	12.7	-	12.7
Yankee CD	8.5	-	8.5
Commercial Paper	3.8	-	3.8
US Treasuries	2.7	23.0	25.7
Cash Equivalents and other	8.9	-	8.9
Total Collateral Held	$ 36.6	$ 53.7	$ 90.3

During Fiscal Year 2015, securities lending transactions could be terminated on demand by either the Permanent Funds or the borrower. As of June 30, 2015, the collateral held had an average duration of 22.5 days and an average weighted final maturity of 79.7 days. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. No more than 20 percent of the total on loan value can be held by a specific borrower. Collateral investment guidelines specifically prohibit European domiciled holdings. There are no restrictions on the amount of securities that can be lent.

Securities were lent with the agreement that they would be returned in the future for exchange of the collateral. State Street Corporation indemnified the WSIB by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return the loaned securities, or pay distributions thereon. State Street Corporation's responsibilities included performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable federal regulations concerning securities lending.

During Fiscal Year 2015, there were no significant violations of legal or contractual provisions, no failures by any borrowers to return loaned securities or to pay distributions thereon. During Fiscal Year 2015, the Permanent Funds incurred no losses resulting from a default by either the borrowers or the securities lending agents.

Note 5. Derivatives

The Permanent Funds are authorized to utilize various derivative financial instruments to purchase and hold mortgage backed securities. Derivative transactions involve, to varying degrees, market and credit risk. Permanent Funds mitigate market risks arising from derivative transactions by requiring collateral in cash and investments to be maintained equal to the securities positions outstanding, thereby prohibiting the use of leverage or speculation. Credit risks arising from derivative transactions are mitigated by selecting and monitoring creditworthy counterparties and collateral issuers.

At June 30, 2015, the only derivative securities held directly by the Permanent Funds' CMBF were collateralized mortgage obligations of $48.7 million.

Note 6. Summary of Investment Policy

Per RCW 43.33A.030, trusteeship of the Permanent Funds is vested in the voting members of the WSIB. The Legislature has established a standard of care for investment of this fund in RCW 43.33A.140. Additionally, the WSIB and its staff must comply with other state laws, such as the Ethics in Public Service Act, Chapter 42.52 RCW, as it makes its investment decisions and seeks to meet the following investment objectives.

Strategic Objectives

The strategic objective for the Permanent Fund portfolios are to be managed to achieve the highest return possible, at a prudent level of risk, and consistent with the desire to emphasize high current yield to maturity opportunities and to add value through active management.

The strategic objectives include:

- Safety of principal
- Current income
- Long-term stability of purchasing power
- Preservation of the public's trust.

Taken together, these objectives imply portfolios for which growth keeps pace with inflation over time and are able to provide a stable level of income sufficient to meet each fund's constituent needs, while maintaining the corpus (or principal balances) of the funds.

Performance Objectives

In most cases, the Permanent Funds' investments are to emphasize stability and maximize income to support the operations of each permanent trust.

Within the required accounting guidelines, the Permanent Funds' portfolios are to be managed so that their individual performance meets or exceeds the return of each fund's specific benchmark with a volatility of returns that, over time, is similar to or less than the benchmark's for a similar level of returns.

Risk Tolerance

Risk will be managed in a prudent manner. Since the stakeholder only receives the current income adjusted for realized capital gains and losses, the funds have a below average ability to tolerate volatility in current income.

Portfolio Constraints

- All assets under the management of the WSIB are to be invested to maximize return at a prudent level of risk, in accordance with RCW 43.33A.140, which state in part that the WSIB is to "invest and manage the assets entrusted to it with reasonable care, skill, prudence and diligence under circumstances then prevailing which a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an activity of like character and purpose."
- No corporate fixed income issues cost shall exceed 3 percent of the fund's market value at the time of purchase, nor shall its market value exceed 6 percent of the fund's market value at any time, per RCW 43.33A.140.

Permissible Investments

The six permanent funds managed by the WSIB have differing legal investment restrictions. The following list is comprehensive and any restrictions to an individual fund will be listed separately.

- Any WSIB managed fund that meets a fund's investment objectives and its permissible investments constraints.
- U.S. and non-U.S. public equity.

- Investment Grade Fixed Income. Investment grade is defined using the method employed by the Barclays Capital Global Family of Fixed Income Indices. Although fixed income securities that are rated below investment grade may not be purchased, portfolio holdings that are downgraded to those levels or are no longer rated may continue to be held.

Permissible Fixed Income Market Segments:

- Government Securities
- Credit Bonds
- Mortgage Backed Securities
- Asset Backed Securities
- Commercial Backed Mortgage Securities
- Convertible Securities
- Eurodollar Bonds
- Non-Dollar Bonds

Other fixed income segments and instruments may be added from time to time as they are developed or deemed appropriate.

Fixed Income Sector Allocations

Portfolio allocations are to be managed within the ranges presented below. These targets are long-term in nature. Deviations may occur in the short-term as a result of interim market conditions; however, if a range is exceeded, the portfolio must be rebalanced to the target allocations as soon as it is practical.

Target allocations for the Fixed Income Sectors:	
Government Securities	10% – 50%
Credit Bonds	10% – 50%
Asset Backed Securities	0% – 10%
Commercial Mortgage Backed Securities	0% – 10%
Mortgage Backed Securities	5% – 40%

Duration Target

The fixed income portfolio's duration is to be targeted within plus or minus 20 percent of the duration of the portfolio's benchmark.

Asset Allocation and Benchmarking

The Agricultural College Fund, Normal School Fund, Common School Fund, Scientific Fund, and the State University Fund have the following asset allocation policies and benchmarks:

Asset Class	Target	Range
Unrestricted Fixed Income	70%	66%-100%
Equities (Russell 3000)	30%	0%-34%

The benchmark for the above funds is a combination of the Barclays Capital Aggregate and the Russell 3000 in the weighted percentage allocations that represent the fund's target allocation.

The American Indian Scholarship Endowment Fund has an asset allocation of 100 percent unrestricted fixed income securities. The benchmark for the fund is the Barclays Capital Aggregate.

Schedule 1: Commingled Monthly Bond Fund (CMBF) Schedule of Net Investment Position

Investment Type	Total Fair Value	Maturity: Less than 1 year	Maturity: 1-5 years	Maturity: 6-10 years	Maturity: More than 10 years	Effective Duration	Credit Rating
Mortgage and Other Asset Backed Securities	$ 64,745,752	$ 16,951,244	$ 45,599,613	$ 2,194,895	$ -	1.79	Schedule 2
Corporate Bonds	277,318,373	36,274,695	136,830,851	39,610,803	64,602,024	5.89	Schedule 2
U.S. Government and Agency Securities	289,103,864	12,207,260	175,765,957	69,123,248	32,007,399	5.86	Aaa
Foreign Government and Agency Securities	15,817,176	-	10,687,158	5,130,018	-	4.64	Schedule 2
Total Debt Securities	646,985,165	$ 65,433,199	$ 368,883,579	$ 116,058,964	$ 96,609,423	5.44*	
Investments Not Required to be Categorized:							
Cash and Cash Equivalents	13,142,909						
Collateral Held Under Securities Lending Agreements	15,705,717						
Investment Earnings Receivable	4,757,761						
Total Commingled Bond Fund Assets	680,591,552						
Distributions and other payables	(2,014,021)						
Obligations Under Securities Lending Agreements	(15,705,717)						
CMBF Net Investment Position - June 30, 2015	$ 662,871,814						

** Duration excludes cash balances*

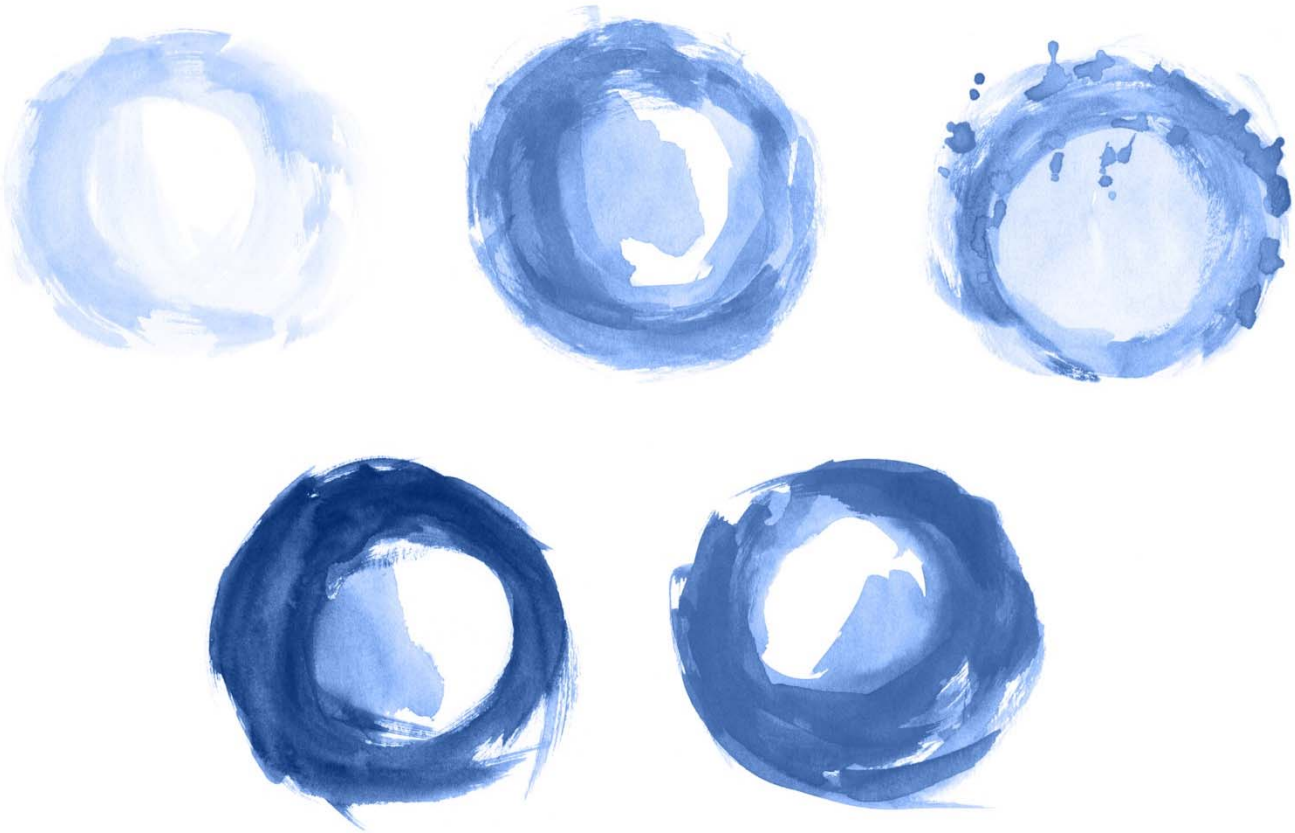
Schedule 2: Commingled Monthly Bond Fund (CMBF) Credit Rating (Moody's)

Credit Rating	Mortgage and Other Asset Backed Securities	Corporate Bonds	Foreign Government and Agency Securities
Aaa	$ 64,691,131	$ 20,425,137	$ -
Aa1	-	-	-
Aa2	54,621	-	5,130,018
Aa3	-	15,765,621	5,357,786
A1	-	26,808,820	5,329,372
A2	-	88,350,033	-
A3	-	47,742,282	-
Baa1	-	48,392,502	-
Baa2	-	15,236,769	-
Baa3	-	14,597,209	-
	$ 64,745,752	$ 277,318,373	$ 15,817,176

Schedule 3: Commingled Monthly Equity Fund (CMEF) Schedule of Net Investment Position

Classification	
Cash and Cash Equivalents	$ 1,450,270
Common Stock	299,895,888
Real Estate Investment Trusts	17,932,041
Income and Other Receivables	3,896,667
Collateral Held Under Securities Lending Agreements	20,913,284
Distributions and Other Payables	(4,258,189)
Obligations Under Securities Lending Agreements	(20,913,284)
Net Investment Position June 30, 2015	$ 318,916,677

GUARANTEED EDUCATION TUITION FUND



Independent Auditor's Report

To the Members of the Washington State Investment Board
Olympia, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the Guaranteed Education Tuition Fund of the State of Washington, as managed by the Washington State Investment Board (the Guaranteed Education Tuition Fund), which comprise the statement of net investment position as of June 30, 2015, and the related statement of changes in net investment position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the investment position of the Guaranteed Education Tuition Fund as of June 30, 2015, and the changes in net investment position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Eide Bailly LLP

Boise, Idaho
September 30, 2015

Management Discussion and Analysis

Management's Discussion and Analysis for the Guaranteed Education Tuition (GET) Fund, managed by the Washington State Investment Board (WSIB), is presented as an introduction to the financial statements. It is meant to assist the reader in understanding the financial statements by providing an overall review of the financial activities during the year, as well as to provide a comparison to the prior year's activities and results. The WSIB manages funds for other Washington State departments. This section of the report represents only the GET Fund portion.

The financial statements and footnotes follow this section of the report. The Statement of Net Investment Position provides information on the types of investments and related liabilities of the GET Fund. This information is summarized in Table 1, which compares the asset, liability, and net investment balances at June 30, 2015, with those at June 30, 2014. The Statement of Changes in Net Investment Position provides information on investment performance and other increases and decreases in the net investment position of the GET Fund for the year ended June 30, 2015. This information is summarized in Table 2, which compares the financial activities of the GET Fund for the year ended June 30, 2015, with those of the year ended June 30, 2014. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements of the GET Fund.

Net investment returns for the significant asset classes and in total for the current fiscal year compared to the prior fiscal year are as follows:

Investment Returns by Asset Class	FY 2015	FY 2014
Cash and Cash Equivalents	0.1%	0.1%
Debt Securities	0.4%	5.3%
Equity Securities	1.2%	23.7%
Total Investment Return	0.8%	16.4%

As shown in Table 1, the net investment position of the GET Fund increased by $7.5 million during the fiscal year ended June 30, 2015. Withdrawals to the GET Fund during the year decreased net investment position by $(13.5) million. Realized and unrealized gains and losses decreased net investment position by $(21.9) million. The remaining increase was a result of net investment income reinvested within the funds.

Table 1 - Summarized Net Investment Position

	2015	2014	Dollar Change	Percent Change
Cash and Cash Equivalents	$ 70,357,999	$ 47,285,675	$ 23,072,324	48.8%
Debt Securities	1,003,709,111	936,649,492	67,059,619	7.2%
Equity Securities	1,588,288,454	1,666,902,996	(78,614,542)	-4.7%
Total Investments	**2,662,355,564**	**2,650,838,163**	**11,517,401**	**0.4%**
Collateral Held Under Securities Lending Agreements	75,740,190	67,051,077	8,689,113	13.0%
Pending Trades and Other Investment Receivables	6,395,924	6,908,267	(512,343)	-7.4%
Total Assets	**2,744,491,678**	**2,724,797,507**	**19,694,171**	**0.7%**
Investment Liabilities	80,379,325	68,148,657	12,230,668	17.9%
Net Investment Position	**$ 2,664,112,353**	**$ 2,656,648,850**	**$ 7,463,503**	**0.3%**

The following summarizes the changes within each grouping listed within Table 1:

- Cash and cash equivalents increased by $23.1 million. Cash balances represent less than 3 percent of total invested balances. Initially, net investment income received from all asset classes and net contributions from GET participants are reinvested or withdrawn from money market funds. Long term investments are made as the cash becomes available and market opportunities exist. Cash balances fluctuate within policy ranges and is held to meet cash flow needs of the program.
- Debt securities increased by $67.1 million. Net realized and unrealized losses decreased this asset class by $(1.4) million. The GET Fund rebalanced during the year ended June 30, 2015, and $61.6 million was invested in debt securities from the proceeds from equity security sales. The remaining increase was due to reinvestment of net investment income within the fixed income portfolio. The global low interest rate environment continued in Fiscal Year 2015, due to central bank policies, slow economic growth, and low inflation. In the U.S., the fixed income market experienced low absolute returns and the safest sectors outperformed the riskier ones. The Barclays Intermediate Credit Index underperformed the broad Aggregate index for the full fiscal year. Treasury yields fell for the first seven months of the fiscal year and rose for the last five. For the full year, long duration treasuries outperformed short duration treasuries but long duration credit underperformed. Credit spreads widened during the year, particularly for commodity producers. At the June meeting of the Federal Open Markets Committee, the Fed expressed optimism about the economy and indicated it could soon raise rates. Fixed income performance was positive for the year as interest earned from coupon payments were greater than the decline in market value of the bond holdings.
- Equity securities decreased by $(78.6) million. During the current fiscal year, the portfolio was rebalanced and $(98.6) million of equity securities were sold and the proceeds invested in the fixed income portfolio or transferred to money market funds. Net realized and unrealized losses decreased equity balances by $(20.5) million. The remaining increase was the result of net investment income reinvested in equity securities. The U.S. equity market continued its strong relative performance in fiscal year 2015. The stronger economic environment and tighter monetary conditions relative to other developed countries contributed to the U.S. market outperformance. During fiscal year 2015, the U.S. dollar appreciated due to interest rate differentials, superior U.S. economic growth, and the dollar's safety. The price of oil and other commodities fell significantly in U.S. dollar-terms over the fiscal year, amid slowing global growth. Equity performance was positive for the year as dividends earned were greater than the decline in market value of the equity holdings.
- Collateral held and obligations under securities lending agreements increased by $8.7 million. Reported collateral balances in the GET Funds financial statements represent only cash received as collateral and reinvested. Additional securities received as collateral totaled $65.4 million. Overall securities on loan and collateral held increased by $39.2 million. The increase in cash collateral and overall loan balances in the GET Fund was due to demand for U.S. equities in multiple sectors including Energy, Biotech, Technology, and Retail. In the Non-U.S. equities space, yield enhancing lending in European markets and increased volatility in Asia markets drove

lending volume higher. There was also a large increase in non-cash collateral loans from prior fiscal year, as borrowers focused on capital usage and attractive overall borrower rebate rates.

As shown in Table 2, net investment income decreased by $(348.0) million during the fiscal year ended June 30, 2015. The majority of this net decrease was the result of decreases in net realized and unrealized losses of $(343.5) million. The current fiscal year return for the GET Fund was .8 percent compared to the prior fiscal year return of 16.4 percent. Interest, dividend, and other investment income decreased by $(4.4) million, mainly due to decreases in dividend income received during the current fiscal year. Equity balances decreased by 4.7 percent over the prior fiscal year, which resulted in lower dividend payments received.

Table 2 - Summarized Changes in Net Investment Position

	2015	2014	Dollar Change	Percent Change
Net Investment Income				
Interest, Dividends and Other Investment Income	$ 44,327,283	$ 48,793,443	$ (4,466,160)	(9.2%)
Net Capital Gains	84,932,143	14,194,510	70,737,633	498.3%
Unrealized Gains (Losses)	(106,828,906)	307,414,445	(414,243,351)	(134.8%)
Less: Fees and Expenses	(1,455,344)	(1,410,548)	44,796	3.2%
Net Investment Income	**20,975,176**	**368,991,850**	**(348,016,674)**	**(94.3%)**
Net Amount Contributed (Withdrawn)	(13,511,673)	17,118,041	(30,629,714)	(178.9%)
Net Investment Position - Beginning	**2,656,648,850**	**2,270,538,959**	**386,109,891**	**17.0%**
Net Investment Position - Ending	**$ 2,664,112,353**	**$ 2,656,648,850**	**$ 7,463,503**	**0.3%**

Net contributions from the GET Fund decreased by $(30.6) million. GET participants purchased approximately 28.6 percent fewer tuition units during the current fiscal year. In addition, lump sum purchases of tuition units, where participants purchase all education units at one time, were lower than the prior fiscal year. These events resulted in less funding available for investment.

The WSIB staff rebalances the GET Funds' investments between asset classes as markets fluctuate, pursuant to WSIB policy. The fair value of the GET Fund assets is directly impacted by the returns of the various capital markets within which the WSIB invests. The returns are expected to have a significant effect on financial position and results of operations in the future. However, one of the benefits of 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. The WSIB, after discussions with the GET Committee, makes the asset allocation decisions for the GET Fund investments.

GET Fund Statement of Net Investment Position - June 30, 2015

See notes to financial statements

		Percent
ASSETS		
Investments:		
Cash and Cash Equivalents	$ 70,357,999	2.6%
Debt Securities		
U.S. Treasury Inflation Protected Securities	235,171,082	8.8%
Commingled Intermediate Credit	768,538,029	28.9%
Total Debt Securities	1,003,709,111	37.7%
Equity Securities		
Common and Preferred Stock	1,533,852,721	57.6%
Real Estate Investment Trusts	42,380,434	1.6%
Depository Receipts and Other	12,055,299	0.5%
Total Equity Securities	1,588,288,454	59.7%
Total Investments	2,662,355,564	100.0%
Collateral Held Under Securities Lending Agreements	75,740,190	
Pending Trades and Other Investment Receivables	6,395,924	
Total Assets	2,744,491,678	
LIABILITIES		
Pending Trades and Other Payables	4,639,135	
Obligations Under Securities Lending Agreements	75,740,190	
Total Liabilities	80,379,325	
NET INVESTMENT POSITION	$ 2,664,112,353	

GET Fund Statement of Changes in Net Investment Position - Year Ended June 30, 2015

See notes to financial statements

Net Investment Income		
Investment Income		
Interest, Dividends and Other Investment Income	$	43,440,496
Securities Lending Income		886,787
Net Realized Capital Gains		84,932,143
Unrealized Losses		(106,828,906)
Less:		
Securities Lending Rebates and Fees		(323,820)
Investment Expenses		(708,895)
WSIB Operating Expenses		(422,629)
Net Investment Income		20,975,176
Net Amount Withdrawn		(13,511,673)
Increase in Net Investment Position		7,463,503
Net Investment Position - June 30, 2014		2,656,648,850
Net Investment Position - June 30, 2015	$	2,664,112,353

Notes to Financial Statements

Note 1. Description of Fund and Significant Accounting Policies

Description of Fund

The GET Fund consists of contributions from participants planning on attending advanced education programs in Washington State at a future date. This fund is invested by the WSIB until participants begin to withdraw funds as needed to pay for educational expenses. The financial statements present only the activity of the GET Fund as managed by the WSIB. The WSIB has exclusive control of the investments held for the GET Fund. The financial statements do not present the financial position and results of operations of the WSIB or the GET Fund.

Basis of Accounting

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States for governments prescribed by the Governmental Accounting Standards Board (GASB) on the accrual basis of accounting.

Valuation of Investments

Investments are reported at fair value. Fair values are based on published market prices, quotations from national security exchanges, and security pricing services. Investments are adjusted to fair values monthly. Unrealized gains and losses are included as investment income in the Statement of Changes in Net Investment Position.

Revenue Recognition

Interest and dividend income are recognized when earned. Capital gains and losses are recognized on a trade date basis. Purchases and sales of investments are also recorded on a trade date basis.

Securities Lending

The collateral received under securities lending agreements, where the GET Fund has the ability to spend, pledge, or sell the collateral without borrower default, is included in the Statement of Net Investment Position. Liabilities resulting from these transactions are also recorded. Additionally, costs associated with securities lending transactions, including broker commissions and lending fees paid to the custodian bank, are reported as investment expenses in the accompanying financial statements. The Statement of Net Investment Position does not include detailed holdings of securities lending collateral by investment classification.

Net Contributions and Withdrawals

Contributions and withdrawals are netted and are recorded when received or paid.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

Note 2. Fees and Expenses

Investment fees and expenses are accounted for as a reduction of investment income or are netted directly from the asset value of the GET Fund's investments. These fees include investment management fees and commissions, investment consultant fees, legal fees, and other investment management related expenses. The WSIB operating

expenses are charged to the funds based upon actual costs incurred to manage the investments. The WSIB operating expenses are allocated to the funds under management based on relative market values, in accordance with state statutes.

Note 3. Deposit and Investment Risk Disclosures

Custodial Credit Risk

Custodial credit risk is the risk that in the event a depository institution or counterparty fails, the GET Fund will not be able to recover the value of its deposits, investments, or collateral securities. As of June 30, 2015, investment securities (excluding cash and cash equivalents and repurchase agreements held as securities lending collateral) are registered and held in the name of the WSIB, for the benefit of the GET Fund and are not exposed to custodial credit risk. There are no general policies relating to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. The risk is managed within the portfolios using effective duration, which is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. The GET Fund investment policies require the duration range for the commingled intermediate credit fund not exceed plus or minus 15 percent of the Barclays Capital Intermediate Credit Index. Increases in prevailing interest rates generally translate into decreases in fair values of fixed income investments.

Schedule 1 and 2 provide information about the interest rate risks associated with the GET Fund investments, as of June 30, 2015. The schedules display various asset classes held by maturity in years, effective durations, and credit ratings. Fixed income securities are reported using the average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity of these securities, taking into account possible prepayments of principal.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The GET Fund's investment policies limit the fixed income securities to investment grade or higher at the time of purchase. Investment grade securities are those fixed income securities with a Moody's rating of Aaa to Baa or a Standard and Poor's rating of AAA to BBB. The rated debt investments as of June 30, 2015, were rated by Moody's and/or an equivalent national rating organization. Investment types with multiple ratings are presented in Schedule 2 using the Moody's rating scale.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The GET Fund policy states no corporate fixed income issues cost shall exceed 3 percent of the fair value at the time of purchase, nor shall its fair value exceed 6 percent of the fair value at any time. There was no concentration of credit risk that exceeded these limits as of June 30, 2015.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The GET Fund does not have a formal policy to limit foreign currency risk. The GET Funds manage their exposure to fair value loss by requiring their investment managers to maintain diversified portfolios by sector and by issuer to limit foreign currency and security risk. The GET Funds exposure to foreign currency risk is presented in Schedule 3 which provides information on deposits and investments held in various foreign currencies.

Note 4. Securities Lending

Washington State law and WSIB policy permit the GET Fund to participate in securities lending programs to augment investment income. The WSIB has entered into an agreement with State Street Corporation to act as agent for the WSIB in securities lending transactions. As State Street Corporation is the custodian bank for the WSIB, it is counterparty to securities lending transactions.

The fair value of the securities on loan at June 30, 2015, was approximately $136.3 million. The securities on loan remain in the Statement of Net Investment Position in their respective categories. At June 30, 2015, cash collateral received totaling $75.7 million is reported as a securities lending obligation, and the fair value of the re-invested cash collateral totaling $75.7 million is reported as security lending collateral in the Statement of Net Investment Position. Securities received as collateral where the GET Fund does not have the ability to pledge or sell the collateral unless the borrower defaults are not reported as assets and liabilities in the Statement of Net Investment Position. Total cash and securities received as collateral at June 30, 2015, was $141.1 million.

Debt and equity securities were loaned and collateralized by the GET Fund's agent with cash and U.S. Government or U.S. Agency Securities including, U.S. Agency Mortgage Backed Securities (exclusive of letters of credit). When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest of the loaned securities. The following table summarizes the securities held from reinvestment of cash collateral and securities held as collateral at June 30, 2015.

In Millions:	Cash Collateral	Non Cash Collateral	Total
Mortgage Backed Securities	$ -	$ 20.4	$ 20.4
Repurchase Agreements	26.3	-	26.3
Yankee CD	17.6	-	17.6
Commercial Paper	7.8	-	7.8
US Treasuries	5.6	45.0	50.6
Cash Equivalents and Other	18.4		18.4
Total Collateral Held	$ 75.7	$ 65.4	$ 141.1

During Fiscal Year 2015, securities lending transactions could be terminated on demand by either the GET Fund or the borrower. As of June 30, 2015, the cash collateral held had an average duration of 22.5 days and an average weighted final maturity of 79.7 days. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. No more than 20 percent of the total on loan value can be held by a specific borrower. Collateral investment guidelines specifically prohibit European domiciled holdings. There are no restrictions on the amount of securities that can be lent.

Securities were lent with the agreement that they would be returned in the future for exchange of the collateral. State Street Corporation indemnified the WSIB by agreeing to purchase replacement securities, or return the cash collateral in the event a borrower failed to return the loaned securities or pay distributions thereon. State Street Corporation's responsibilities included performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable federal regulations concerning securities lending.

During Fiscal Year 2015, there were no significant violations of legal or contractual provisions, no failures by any borrowers to return loaned securities or to pay distributions thereon. Further, the GET Fund incurred no losses during Fiscal Year 2015, resulting from a default by either the borrowers or the securities lending agents.

Note 5. Derivatives

The GET Fund is authorized to utilize various derivative financial instruments, including financial futures and forward contracts. Derivative transactions involve, to varying degrees, market and credit risk. In connection with the global equity strategy within the portfolio, the GET Fund held investments in financial futures at various times throughout the fiscal year that are recorded at fair value with realized and unrealized gains and losses recognized in investment income in the Statement of Changes in Net Investment Position. As of June 30, 2015, the derivative instruments held by the GET Fund are considered investment derivatives and not hedging derivatives for accounting purposes.

Derivatives are generally used to achieve the desired market exposure of a security, index, or currency. Derivative contracts are instruments that derive their value from underlying assets, indices, reference interest rates, or a combination of these factors. A derivative instrument could be a contract negotiated on behalf of the GET Fund and a specific counterparty. This would typically be referred to as an over the counter (OTC) contract such as forward contracts. Alternatively, a derivative instrument, such as futures, could be listed and traded on an exchange and referred to as "exchange traded."

Futures contracts are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price. Gains and losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. The exchange assumes counterparty risk and requires margin deposits and payments to minimize such risk. Futures are generally used to achieve the desired market exposure of a security or index, or rebalance the total portfolio.

Forward currency contracts are agreements to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. These forward commitments are not standardized and carry credit risk due to the possible nonperformance by one of the counterparties. The maximum potential loss is the aggregate face value in U.S. dollars at the time the contract was opened; however, the likelihood of such loss is remote. During the fiscal year ended June 30, 2015, the GET Fund had no outstanding forward currency contracts.

Inherent in the use of OTC derivatives, the GET Fund is exposed to counterparty credit risk on all open OTC positions. Counterparty credit risk is the risk that a derivative counterparty may fail to meet its payment obligation under the derivative contract. As of June 30, 2015, the GET Fund had no open OTC derivatives and, accordingly, no counterparty credit risk. Derivatives which are exchange traded are not subject to counterparty credit risk.

		Changes in Fair Value - Included in Investment Income	Fair Value at June 30, 2015 - Investment Derivative	
	Classification	Amount	Amount	Notional
FUTURES CONTRACTS:				
Equity Index Futures	Investment	$ 725,147	$ (142,963)	5,000

Note 6. Summary of Investment Policy

Per RCW 43.33A.030, trusteeship of the GET Fund is vested in the voting members of the WSIB. The Legislature has established a standard of care for investment of these funds in RCW 43.33A.140. Additionally, the WSIB and its staff must comply with other state laws, such as the Ethics in Public Service Act, Chapter 42.52 RCW, as it makes its investment decisions and seeks to meet the following investment objectives.

In accordance with RCW 43.33A.110, the portfolio is managed to achieve a maximum return at a prudent level of risk. The key determinate is identifying the prudent level of risk for the program considering the program's need to meet or exceed the growth rate of tuition costs. Based on this requirement the order of the objectives shall be:

- Maintain the solvency of the fund and the financial stability of the program as measured by the external actuary;
- Ensure sufficient assets are available to fund the expected college tuition payments;
- Subject to the above requirements, achieve a maximum return that will meet or exceed the rate of growth in college tuition cost over a 10-year period, at a prudent level risk; and
- Invest in a manner that will not compromise public confidence in the program.

Performance Objectives

Performance of the investment portfolio shall be judged relative to the investment objectives, the risk constraint standards, and the investment approach.

The fund has both a long-term absolute goal and several relative performance objectives:

- Achieve or exceed a 3.25 percent real rate of return relative to inflation, as measured by the Consumer Price Index (CPI), over a 10-year period.
- Relative to asset allocation targets, generate a return equal to, or in excess of, the weighted average passive benchmark for all asset classes within the portfolio.
- The benchmark and structure for public equity investments will be to passively track the broad global stock market as defined by the MSCI All Country World Investable Market Index (MSCI ACWI IMI).
- The long-term goals of the fixed income portfolio are to return more than inflation and to limit volatility for the total portfolio.

Risk Constraint Standards

- All assets under management by the WSIB are to be invested to maximize return at a prudent level of risk in accordance with the requirements of RCW 43.33A.110 and RCW 43.33A.140.
- No corporate fixed income issue's or common stock holding's cost shall exceed 3 percent of the Fund's fair value at the time of purchase, nor shall its fair value exceed 6 percent of the Fund's fair value at any time per RCW 43.33A.140.
- Diversification of the assets at a prudent level to moderate fluctuations in the fair value of the program.

Permissible Investments

- Publicly Traded Equity Investments
- Inflation Indexed Bonds
- U.S. Treasuries and Government Obligations
- Credit Bonds (Investment grade or higher at time of purchase)
- WSIB Bond Market Fund
- Cash equivalent funds

Although fixed income securities that are rated below investment grade may not be purchased, portfolio holdings that are downgraded to those levels or are no longer rated may continue to be held.

Asset Allocation

The asset allocation will be reviewed every four years, or sooner, if there are significant changes in program size, funding status, or liability duration. Assets will be rebalanced across asset classes when market values of the assets fall outside the policy ranges. The timing of the rebalancing will be based upon market opportunities and the consideration of transactions costs and, therefore, need not occur immediately.

The asset allocation strategy for the GET Fund is as follows:

Asset Class	Target	Range
Global Equities	60%	55%-65%
Fixed Income	40%	35%-45%
Cash	0%	0%-5%

Schedule 1: Schedule of Maturities and Credit Ratings

Investment Type	Total Fair Value	Maturity: Less than 1 year	Maturity: 1-5 years	Maturity: 6-10 years	Maturity: More than 10 years	Effective Duration	Credit Rating
Treasury Inflation Protected Securities	$ 235,171,082	$ -	$ 82,152,172	$ 100,250,570	$ 52,768,340	6.20	AAA
Commingled Intermediate Credit	768,538,029	75,450,433	394,531,927	294,349,524	4,206,145	4.50	Schedule 2
	1,003,709,111	$ 75,450,433	$ 476,684,099	$ 394,600,094	$ 56,974,485	4.90	
Investments Not Required to be Categorized							
Equity Securities	1,588,288,454						
Cash and Cash Equivalents	70,357,999						
Total Investments Not Categorized	1,658,646,453						
Total Investments	$ 2,662,355,564						

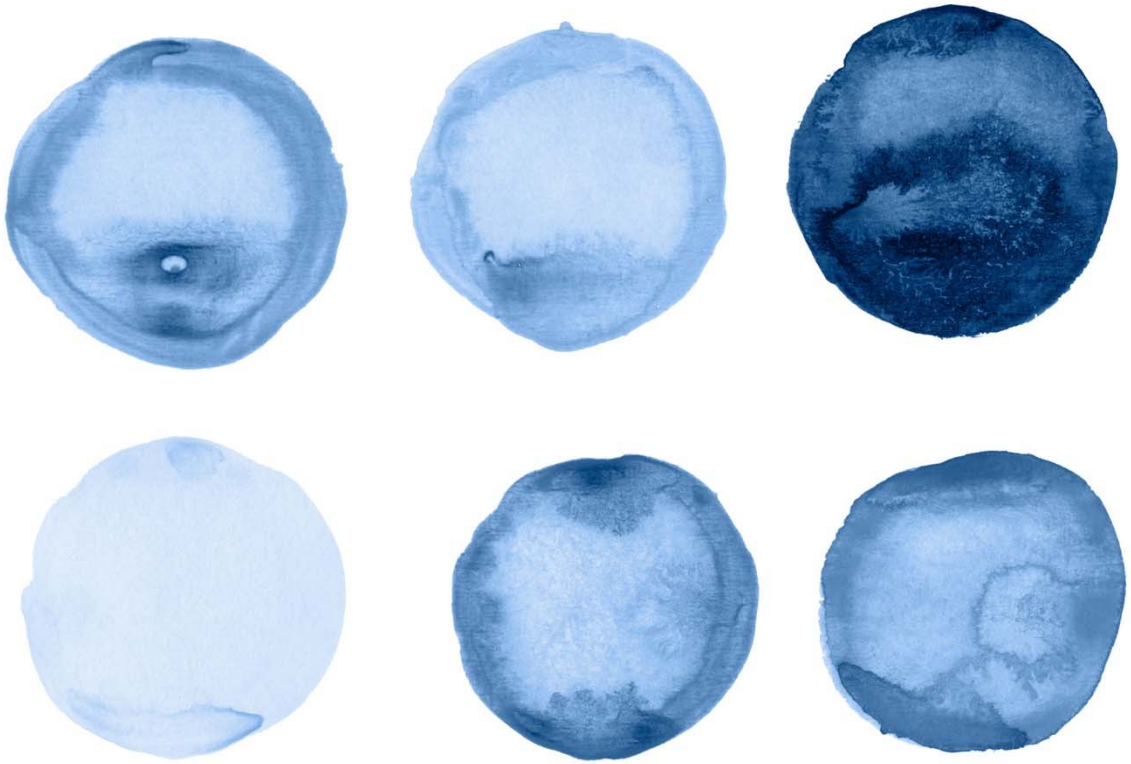
Schedule 2: Additional Credit Rating Disclosures

Commingled Intermediate Credit	
Moody's Equivalent Credit Rating	**Total Fair Value**
Aaa	$ 45,335,147
Aa1	4,497,772
Aa2	13,160,130
Aa3	105,562,837
A1	52,195,674
A2	111,259,249
A3	98,934,692
Baa1	106,437,848
Baa2	116,264,607
Baa3	104,225,890
Ba1 or Lower	10,664,183
Total Fair Value	$ 768,538,029

Schedule 3: Foreign Currency Exposure by Currency

Foreign Currency Denomination	Investment Type In U.S. Dollar Equivalent					
	Cash and Cash Equivalents	Equity Securities	Foreign Exchange Contracts Receivable	Foreign Exchange Contracts Payable	Total	Percent of Total GET Funds Investments
AUSTRALIAN DOLLAR	$ 226,844	$ 36,544,472	$ -	$ -	$ 36,771,316	1.4%
BRAZILIAN REAL	448,516	12,344,552	-	-	12,793,068	0.5%
CANADIAN DOLLAR	802,566	51,983,304	-	-	52,785,870	2.0%
SWISS FRANC	6,108	47,210,268	-	-	47,216,376	1.7%
CHILEAN PESO	94,214	2,158,920	-	-	2,253,134	0.1%
COLOMBIAN PESO	134,874	973,865	-	-	1,108,739	Trace
DANISH KRONE	52,469	9,363,167	-	-	9,415,636	0.4%
EURO CURRENCY	230,073	159,221,324	-	-	159,451,397	6.0%
POUND STERLING	737,200	113,638,338	-	-	114,375,538	4.3%
HONG KONG DOLLAR	638,931	59,184,349	-	-	59,823,280	2.2%
INDONESIAN RUPIAH	288,944	4,003,260	-	-	4,292,204	0.2%
NEW ISRAELI SHEQEL	332,629	3,448,100	-	-	3,780,729	0.1%
INDIAN RUPEE	1,449,544	13,641,102	-	-	15,090,646	0.6%
JAPANESE YEN	1,055,385	130,896,640	-	-	131,952,025	5.0%
SOUTH KOREAN WON	77,813	25,676,395	1,090,678	(1,090,062)	25,754,824	1.0%
MEXICAN PESO (NEW)	62,308	6,938,738	-	-	7,001,046	0.3%
MALAYSIAN RINGGIT	401,378	5,535,733	-	-	5,937,111	0.2%
NORWEGIAN KRONE	91,500	4,256,183	-	-	4,347,683	0.2%
NEW ZEALAND DOLLAR	46,643	1,040,060	-	-	1,086,703	Trace
PHILIPPINE PESO	119,641	2,276,674	-	-	2,396,315	0.1%
POLISH ZLOTY	17,399	2,247,197	-	-	2,264,596	0.1%
SWEDISH KRONA	50,478	17,182,020	-	-	17,232,498	0.6%
SINGAPORE DOLLAR	132,620	8,319,953	-	-	8,452,573	0.3%
THAILAND BAHT	322,484	3,269,507	-	-	3,591,991	0.1%
TURKISH LIRA	79,552	2,436,594	-	-	2,516,146	0.1%
NEW TAIWAN DOLLAR	462,308	23,613,003	-	-	24,075,311	0.9%
SOUTH AFRICAN RAND	46,057	13,470,122	-	-	13,516,179	0.5%
OTHER - MISCELLANEOUS	170,421	1,965,621	-	-	2,136,042	0.1%
	$ 8,578,899	$ 762,839,461	$ 1,090,678	$ (1,090,062)	$ 771,418,976	29.0%

DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST FUND



Independent Auditor's Report

To the Members of the Washington State Investment Board
Olympia, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the Developmental Disabilities Endowment Trust Fund of the State of Washington as managed by the Washington State Investment Board (the Developmental Disabilities Endowment Trust Fund), which comprise the statement of net investment position as of June 30, 2015, and the related statement of changes in net investment position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the investment position of the Developmental Disabilities Endowment Trust Fund as of June 30, 2015, and the changes in net investment position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Eide Bailly LLP

Boise, Idaho
September 30, 2015

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Management Discussion and Analysis

Management's Discussion and Analysis for the Developmental Disabilities Endowment Trust Fund (DDEF) of Washington State, managed by the Washington State Investment Board (WSIB), is presented as an introduction to the financial statements. It is meant to assist the reader in understanding the financial statements by providing an overall review of the financial activities during the year, as well as to provide a comparison to the prior year's activities and results. The WSIB manages funds for other Washington State departments. This section of the report covers the DDEF only.

The financial statements and footnotes follow this section of the report. The Statement of Net Investment Position provides information on the types of investments, assets, and liabilities of the DDEF, as of June 30, 2015. This information is summarized in Table 1, which compares the asset, liability, and net investment balances at June 30, 2015, with those at June 30, 2014. The Statement of Changes in Net Investment Position provides information on investment performance and other increases and decreases in the net investment position of the DDEF for the year ended June 30, 2015. This information is summarized in Table 2, which compares the financial activities of the DDEF for the year ended June 30, 2015, with those of the year ended June 30, 2014. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements of the DDEF.

Net investment returns for the significant asset classes and in total for the DDEF for the current fiscal year compared to the prior fiscal year are as follows:

	Developmental Disabilities Endowment Trust Fund - State		Developmental Disabilities Endowment Trust Fund - Private	
Investment Returns by Asset Class	FY 2015	FY 2014	FY 2015	FY 2014
Cash and Cash Equivalents	0.1%	0.1%	0.1%	0.1%
Debt Securities	0.1%	4.9%	NA	NA
Equity Securities	2.1%	23.9%	NA	NA
Balanced Trust	NA	NA	5.1%	16.4%
Total Investment Return	0.3%	8.1%	5.1%	16.4%

As shown in Table 1, the net investment position of the DDEF increased by $3.3 million during the fiscal year ended June 30, 2015. The increase in net investment position was primarily due to the contributions to the private trust fund of $1.5 million and net realized and unrealized gains of $1.0 million. The remaining net investment position increase was the result of net investment earnings reinvested within the DDEF funds.

Table 1 - Summarized Net Investment Position

	2015	2014	Dollar Change	Percent Change
Cash and Cash Equivalents	$ 31,420	$ 118,926	$ (87,506)	-73.6%
Debt Securities	9,516,930	9,102,149	414,781	4.6%
Equity Securities	2,018,773	2,283,662	(264,889)	-11.6%
Balanced Funds	37,429,510	34,206,375	3,223,135	9.4%
Total Investments	**48,996,633**	**45,711,112**	**3,285,521**	**7.2%**
Earnings Receivable	10	24,462	(24,452)	-100.0%
Total Assets	**48,996,643**	**45,735,574**	**3,261,069**	**7.1%**
Investment Liabilities	185	115	70	60.9%
Net Investment Position	**$ 48,996,458**	**$ 45,735,459**	**$ 3,260,999**	**7.1%**

The following summarizes the changes within each grouping listed in Table 1:

- Cash and cash equivalents decreased by $(0.1) million. Cash balances represents less than 1 percent of total investments and are within policy ranges. Net investment income and contributions received are invested into money market funds and subsequently reinvested in longer term securities. Money market balance fluctuations are a result of the timing of cash received and the reinvestment to other asset classes.
- Debt securities increased by $0.4 million. This increase is due entirely to transfer of sale proceeds from other asset class. Net realized and unrealized losses as well as reinvested income within this asset class were de minimus. The global low interest rate environment continued in Fiscal Year 2015 due to central bank policies, slow economic growth, and low inflation. In the U.S., the fixed income market experienced low absolute returns and the safest sectors outperformed the riskier ones. The Barclays Intermediate Credit Index underperformed the broad Aggregate index for the full fiscal year. Treasury yields fell for the first seven months of the fiscal year and rose for the last five. For the full year, long duration treasuries outperformed short duration treasuries but long duration credit underperformed. Credit spreads widened during the year, particularly for commodity producers. At the June meeting of the Federal Open Markets Committee, the Fed expressed optimism about the economy and indicated it could soon raise rates.
- Balanced mutual funds increased $3.2 million. Private trust fund contributions of $1.5 million were invested in this asset class. Realized and unrealized gains increased the portfolio by $1.0 million. The remaining increase was due to the reinvestment of income within the fund. The balanced mutual fund is invested for the purpose of capital appreciation, current income, and long term growth through a mix of 60 percent equities and 40 percent bonds. The overall performance in the current fiscal year was 5.1 percent.
- Equity securities decrease of $(0.3) million was entirely due to proceeds from the sale of equity securities transferred to other asset classes. Net realized and unrealized gains, as well as reinvestment of income was de minimus. The U.S. equity market continued its strong relative performance in fiscal year 2015. The stronger economic environment and tighter monetary conditions relative to other developed countries contributed to the U.S. market outperformance. During fiscal year 2015 the U.S. dollar appreciated due to interest rate differentials, superior U.S. economic growth, and the dollar's safety. The price of oil and other commodities fell significantly in U.S. dollar-terms over the fiscal year amid slowing global growth.

DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST FUND

As shown in Table 2, net investment income decreased by $(3.8) million from the prior year almost entirely due to decreases in the net realized and unrealized gains and losses. Contributions decreased over the prior year as the private trust fund received less funds from participants during the current fiscal year. The DDEF State portfolio returned 0.3 percent during the current fiscal year and the DDEF Private portfolio returned 5.1 percent for the same time period.

Table 2 - Summarized Changes in Net Investment Position

	2015	2014	Dollar Change
Net Investment Income			
Investment Income	$ 755,618	$ 666,328	$ 89,290
Net Capital Gains	1,133,598	369	1,133,229
Unrealized Gains (Losses)	(126,212)	4,889,099	(5,015,311)
Less:			
Investment Expenses	(3,861)	(3,749)	112
Net Investment Income	**1,759,143**	**5,552,047**	**(3,792,904)**
Net Amount Contributed	1,501,856	1,679,895	(178,039)
Net Investment Position - Beginning	**45,735,459**	**38,503,517**	**7,231,942**
Net Investment Position - Ending	**$ 48,996,458**	**$ 45,735,459**	**$ 3,260,999**

The fair value of the DDEF net investment position is directly impacted by the returns of the various capital markets within which the WSIB invests, and the returns are expected to have a significant effect on financial position and results of operations in the future. However, one of the benefits of 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. The WSIB, with concurrence from the Developmental Disabilities Life Opportunities Trust Governing Board, makes the asset allocation decisions for the DDEF assets. The WSIB staff rebalances the DDEF's assets between asset classes as markets move, pursuant to WSIB policy.

DDEF Statement of Net Investment Position - June 30, 2015

See notes to financial statements

	Developmental Disabilities Endowment Trust Fund State	Developmental Disabilities Endowment Trust Fund Private	Total	Percent of Total
ASSETS				
Investments:				
CASH AND CASH EQUIVALENTS				
Money Market Funds	$ 21,521	$ 9,899	$ 31,420	0.1%
DEBT SECURITIES				
Commingled Intermediate Credit	9,516,930	-	9,516,930	19.4%
EQUITY SECURITIES				
Commingled Equity Index Funds	2,018,773	-	2,018,773	4.1%
BALANCED FUNDS				
Commingled Balanced Trust	-	37,429,510	37,429,510	76.4%
Total Investments	11,557,224	37,439,409	48,996,633	100.0%
Investment Earnings Receivable	4	6	10	
Total Assets	11,557,228	37,439,415	48,996,643	
LIABILITIES				
Accrued Expenses Payable	180	5	185	
NET INVESTMENT POSITION	**$ 11,557,048**	**$ 37,439,410**	**$ 48,996,458**	

DDEF Statement of Changes in Net Investment Position - Year Ended June 30, 2015

See notes to financial statements

	Developmental Disabilities Endowment Trust Fund State	Developmental Disabilities Endowment Trust Fund Private	Total
Net Investment Income			
Investment Income:			
Interest, Dividends and Other Investment Income	$ 40,374	$ 715,244	$ 755,618
Net Realized Capital Gains	1,133,598	-	1,133,598
Unrealized Gains (Losses)	(1,135,403)	1,009,191	(126,212)
Less:			
Investment Expenses	(855)	(1,150)	(2,005)
WSIB Operating Expenses	(1,856)	-	(1,856)
Net Investment Income	35,858	1,723,285	1,759,143
Net Amount Contributed	1,856	1,500,000	1,501,856
Increase in Net Investment Position	37,714	3,223,285	3,260,999
Net Investment Position, June 30, 2014	11,519,334	34,216,125	45,735,459
Net Investment Position, June 30, 2015	$ 11,557,048	$ 37,439,410	$ 48,996,458

Notes to Financial Statements

Note 1. Description of Funds and Significant Accounting Policies

Description of Funds

The Developmental Disabilities Endowment Fund (DDEF) of Washington State consists of two funds. The State Trust Fund was originally created from a grant by Washington State. The Private Trust Fund consists of contributions by private individuals participating in the program. These funds are invested by the WSIB until participants withdraw funds as needed. The financial statements present only the activity of the DDEF as managed by the WSIB. The WSIB has exclusive control of the investments held by the DDEF. The financial statements do not present the financial position and results of operations of the WSIB or the activity of the DDEF.

Basis of Accounting

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States, for governments prescribed by the Governmental Accounting Standards Board (GASB) on the accrual basis of accounting.

Valuation of Investments

Investments are reported at fair value. Fair values are based on published market prices, quotations from national security exchanges, and security pricing services. Investments are adjusted to fair values monthly. Unrealized gains and losses are included as investment income in the Statement of Changes in Net Investment Position.

Revenue Recognition

Interest and dividend income are recognized when earned. Capital gains and losses are recognized on a trade date basis. Purchases and sales of investments are also recorded on a trade date basis.

Securities Lending

The DDEF reports collateral received under securities lending agreements where the DDEF has the ability to spend, pledge, or sell the collateral without borrower default. Liabilities resulting from these transactions are also recorded. Additionally, costs associated with securities lending transactions, including broker commissions paid and lending fees paid to the custodian bank, are reported as investment expenses in the accompanying financial statements. The Statement of Net Investment Position does not include detailed holdings of securities lending collateral by investment classification.

Contributions and Withdrawals

Contributions and withdrawals are recorded when received or paid.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

Note 2. Fees and Expenses

Investment fees and expenses are accounted for as a reduction of investment income or are netted directly from the asset value of the DDEF's investments. These fees include investment management fees and commissions, investment consultant fees, legal fees, and other investment management related expenses. The WSIB operating expenses are

charged to the funds based upon actual costs incurred to manage the investments. The WSIB operating expenses are allocated to the funds under management based on relative market values, in accordance with state statutes.

Note 3. Deposit and Investment Risk Disclosures

Custodial Credit Risk

Custodial credit risk is the risk that in the event a depository institution or counterparty fails, the DDEF Funds will not be able to recover the value of its deposits, investments, or collateral securities. As of June 30, 2015, investment securities (excluding cash, cash equivalents, and repurchase agreements held as securities lending collateral) are registered and held in the name of the WSIB for the benefit of the DDEF Funds, and are not exposed to custodial credit risk. There are no general policies relating to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. The risk is managed within the portfolios using effective duration, which is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. The DDEF's investment policies require the duration range for the commingled intermediate credit fund not exceed plus or minus 15 percent of the Barclays Capital Intermediate Credit Index. Increases in prevailing interest rates generally translate into decreases in fair values of fixed income investments.

Schedule 1 and 2 provide information about the interest rate risks associated with the DDEF investments as of June 30, 2015. The schedules display various asset classes held by maturity in years, effective durations, and credit ratings. Fixed income securities are reported using the average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity for these securities, taking into account possible prepayments of principal.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The DDEF Funds' investment policies limit the fixed income securities to U.S. Inflation Indexed Bonds, and an internally managed bond fund consisting of corporate and foreign government and agency bonds. All fixed income securities must be investment grade or higher at the time of purchase. Investment grade securities are those fixed income securities with a Moody's rating of Aaa to Baa or a Standard and Poor's rating of AAA to BBB.

The DDEF's rated debt investments as of June 30, 2015, were rated by Moody's or equivalent rating methodology.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. Revised Code of Washington (RCW) 43.33A.140 requires that corporate fixed income securities cost may not exceed 3 percent of the DDEF Funds fair value at the time of purchase, nor shall its fair value exceed 6 percent of the DDEF Funds' fair value at any time. There was no concentration of credit risk that exceeded these limits as of June 30, 2015.

Foreign Currency Risk

Foreign currency risk is defined as any deposits or investments that are denominated in foreign currencies, which bear a potential risk of loss arising from changes in currency exchange rates. The DDEF has no formal policy to limit foreign currency risk. The only security held by the DDEF with foreign currency exposure at June 30, 2015, consists of $886,571 invested in various international commingled equity index funds.

Note 4. Securities Lending

Washington State law and WSIB policy permit the DDEF to participate in securities lending programs to augment investment income. The WSIB has entered into an agreement with State Street Corporation to act as agent for the WSIB in securities lending transactions. As State Street Corporation is the custodian bank for the WSIB, it is counterparty to securities lending transactions.

Securities on loan remain in the Statement of Net Investment Position in their respective categories. Cash collateral received is reported as a securities lending obligation, and the fair value of the reinvested cash collateral is reported as a security lending collateral in the Statement of Net Investment Position. Securities received as collateral where the DDEF does not have the ability to pledge or sell the collateral unless the borrower defaults, are not reported as assets and liabilities in the Statement of Net Investment Position. During the current fiscal year no available securities were on loan. Accordingly, there were no assets on loan at June 30, 2015, and no collateral held related to securities lending transactions in the DDEF Funds.

Note 5. Summary of Investment Policy

Under RCW 43.33A.030, trusteeship of the DDEF is vested within the voting members of the WSIB. The Legislature has established a standard of care for investment of these funds in RCW 43.33A.140. Additionally, the WSIB and its staff must comply with other state laws, such as the Ethics in Public Service Act, Chapter 42.52 RCW, as it makes its investment decisions and seeks to meet the following investment objectives.

In accordance with RCW 43.33A.110, the portfolio is managed to achieve a maximum return at a prudent level of risk. The key determinate is identifying the prudent level of risk for a program relative to the needs of the Developmental Disabilities Governing Board and the participants. Based on this requirement, the order of the objectives shall be to:

- Maximize return at a prudent level of risk based on identified investment time horizons
- Ensure sufficient assets are available to fund the expected needs
- Invest in a manner that will not compromise public confidence in the program.

Risk Constraint Standards

- All assets under management by the WSIB are to be invested to maximize return at a prudent level of risk in accordance with the requirements of RCW 43.33A.110 and RCW 43.33A.140, which states in part the WSIB is to “invest and manage the assets entrusted to it with reasonable care, skill, prudence and diligence under circumstances then prevailing which a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an activity of like character and purpose.”
- No corporate fixed income issues or common stock holding’s cost shall exceed 3 percent of the fund’s market value at the time of purchase, nor shall its market value exceed 6 percent of the fund’s market value at any time (RCW 43.33A.140)
- Diversification of the assets at a prudent level to moderate fluctuations in the fair value of the program.

Permissible Investments

Fixed Income: Inflation Indexed Bonds, U.S. Treasuries and Government Agencies, Credit Bonds, WSIB Bond Market Fund, Cash Equivalent Funds
U.S. Equity: The benchmark and structure for public equity investments will be to passively track the broad global stock market as defined by the MSCI All Country World Investable Market Index (MSCI ACWI IMI)
Balanced Mutual Funds: DDEF – Private Funds will invest in the Vanguard Balanced Index – Institutional Share's mutual fund
Cash: The cash portfolio will be invested in Short-term Investment Funds and Money Market Funds

Asset Allocation

The asset allocation policy has been developed with the performance objectives of:

- Short-term: Earn a rate of return that exceeds inflation, with a bias toward preservation of corpus; and
- Long-term: Earn a rate of return that exceeds inflation.

Assets are rebalanced across asset classes when market values fall outside respective policy targets or ranges as follows:

State Funds	Target	Range
Cash	0%	0%-5%
Fixed Income	83%	80%-86%
Global Equity	17%	14%-20%

Private Funds	Target
Fixed Income	40%
Equities	60%

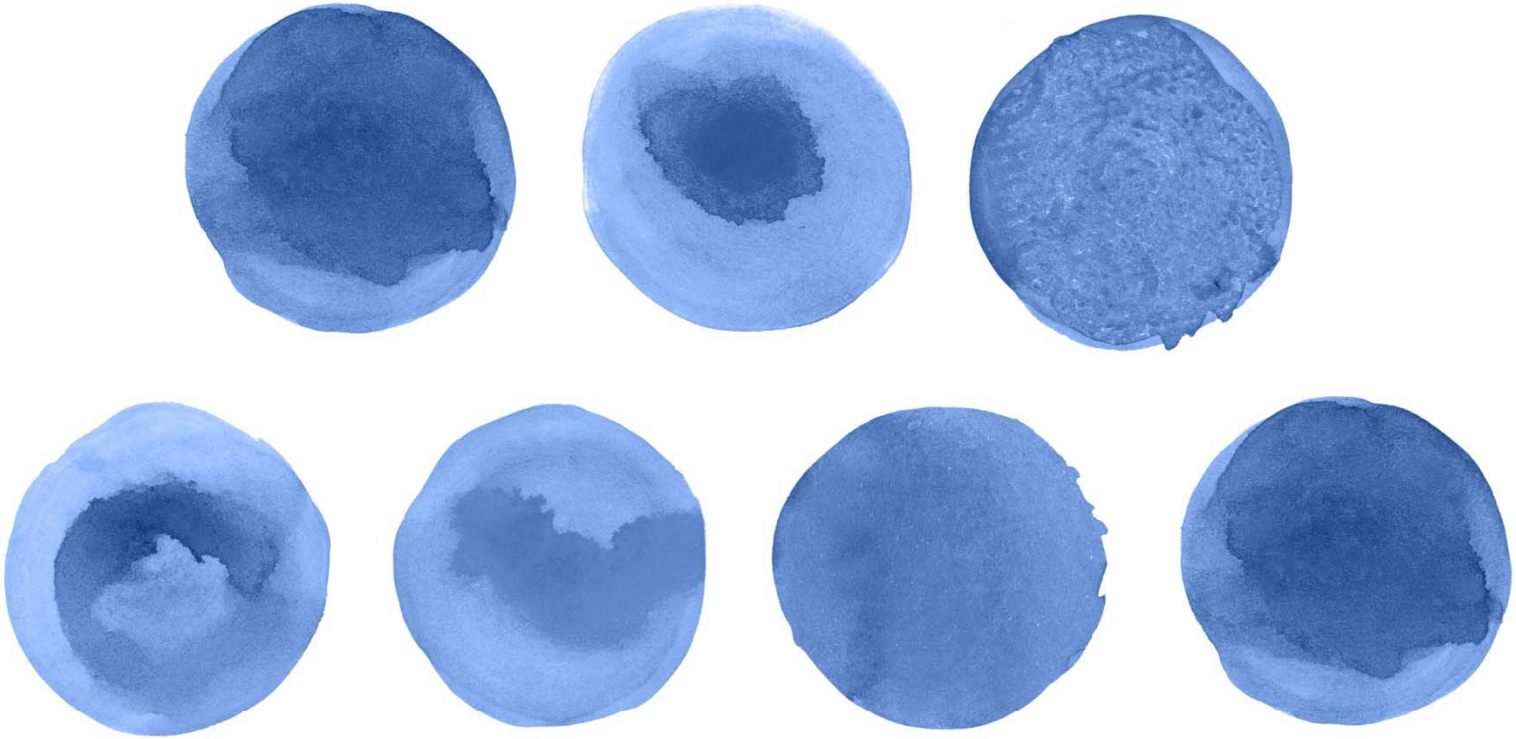
Schedule 1: Schedule of Maturities and Credit Ratings

Investment Type	Total Fair Value	Maturity: Less than 1 year	Maturity: 1-5 years	Maturity: 6-10 years	Maturity: More than 10 years	Effective Duration	Credit Rating
Commingled Intermediate Credit	$ 9,516,930	$ 934,315	$ 4,885,552	$ 3,644,978	$ 52,085	4.52	Schedule 2
Investments Not Required to be Categorized							
Commingled Equity Index Funds	2,018,773						
Commingled Balanced Trust	37,429,510						
Money Market Funds	31,420						
Total Investments Not Categorized	39,479,703						
Total Investments	$ 48,996,633						

Schedule 2: Additional Credit Rating Disclosures

Commingled Intermediate Credit	
Moody's Equivalent Credit Rating	**Market Value**
Aaa	$ 561,392
Aa1	55,696
Aa2	162,964
Aa3	1,307,202
A1	646,347
A2	1,377,741
A3	1,225,124
Baa1	1,318,037
Baa2	1,439,723
Baa3 and below	1,422,704
Total Fair Value	$ 9,516,930

WASHINGTON STATE OPPORTUNITIES SCHOLARSHIP FUND



Independent Auditor's Report

To the Members of the Washington State Investment Board
Olympia, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the Washington State Opportunity Scholarship Funds of the State of Washington as managed by the Washington State Investment Board (the Washington State Opportunity Scholarship Funds), which comprise the statement of net investment position as of June 30, 2015, and the related statement of changes in net investment position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the investment position of the Washington State Opportunity Scholarship Funds as of June 30, 2015, and the changes in net investment position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Eide Bailly LLP

Boise, Idaho
September 30, 2015

Management Discussion and Analysis

Management's Discussion and Analysis for the Washington State Opportunity Scholarship Fund (WSOSF), managed by the Washington State Investment Board (WSIB), is presented as an introduction to the financial statements. It is meant to assist the reader in understanding the financial statements by providing an overall review of the financial activities during the year, as well as to provide a comparison to the prior year's activities and results. The WSIB manages funds for other Washington State departments. This section of the report covers the WSOSF only.

The financial statements and footnotes follow this section of the report. The Statement of Net Investment Position provides information on the types of investments, assets, and liabilities of the WSOSF, as of June 30, 2015. This information is summarized in Table 1. The Statement of Changes in Net Investment Position provides information on investment performance and other increases and decreases in the net investment position of the WSOSF, for the year ended June 30, 2015. This information is summarized in Table 2. The WSOSF made their initial investment with the WSIB during the current fiscal year and, accordingly, there are no prior year balances. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements of the WSOSF.

Net investment returns for the significant asset classes and in total for the WSOSF for the current fiscal year are as follows:

	Scholarship Fund	Endowment Fund
Investment Return by Asset Class	FY 2015	FY 2015
Cash and Cash Equivalents	0.0%	0.0%
Debt Securities	1.7%	1.7%
Equity Securities	4.0%	4.0%
Total Investment Return	3.1%	3.5%

Note: Performance calculated from initial funding date of September 30, 2014

As shown in Table 1, the net investment position of the WSOSF increased by $43.8 million during the fiscal year ended June 30, 2015. The increase in net investment position was primarily due to the contributions received of $43.0 million and realized and unrealized gains of $.8 million.

Table 1 - Summarized Net Investment Position		
		2015
Cash and Cash Equivalents	$	19,004,281
Debt Securities		8,336,767
Equity Securities		16,429,416
Total Investments		**43,770,464**
Earnings Receivable		3,280
Total Assets		**43,773,744**
Investment Liabilities		5,201
Net Investment Position	**$**	**43,768,543**

The following summarizes the changes within each grouping listed in Table 1:

- Cash and cash equivalents increased by $19.0 million. Currently, all state matching funds are invested in money market funds due to legal restrictions as to the type of investments that can be made. Money market balance fluctuations are a result of the timing of cash received and the reinvestment to other asset classes.
- Debt securities increased by $8.3 million. This increase is due almost entirely to the initial contribution received to purchase fixed income securities of $8.2 million. Net realized and unrealized gains within the fixed income portfolio increased this asset class by $.1 million. The global low interest rate environment continued in Fiscal Year 2015 due to central bank policies, slow economic growth, and low inflation. In the U.S., the fixed income market experienced low absolute returns, and the safest sectors outperformed the riskier ones. The Barclays Intermediate Credit Index underperformed the broad Aggregate index for the full fiscal year. Treasury yields fell for the first 7 months of the fiscal year and rose for the last 5 months. For the full year, long duration treasuries outperformed short duration treasuries, but long duration credit underperformed. Credit spreads widened during the year, particularly for commodity producers. At the June meeting of the Federal Open Markets Committee, the Fed expressed optimism about the economy and indicated it could soon raise rates.
- Equity securities increased by $16.4 million. Contributions received and transferred to purchase equity securities was $15.8 million. The remaining increase was net realized and unrealized gains within the equity portfolio. The U.S. equity market continued its strong relative performance in fiscal year 2015. The stronger economic environment and tighter monetary conditions, relative to other developed countries, contributed to the U.S. market outperformance. During fiscal year 2015, the U.S. dollar appreciated due to interest rate differentials, superior U.S. economic growth, and the dollar's safety. The price of oil and other commodities fell significantly, in U.S. dollar-terms, over the fiscal year amid slowing global growth.

As shown in Table 2, net investment income was $.8 million, comprised almost entirely of realized and unrealized gains and losses. All asset classes experienced positive investment returns in the current fiscal year, contributing to the market appreciation. During the current fiscal year, the WSOSF contributed initial investment funding of $24.0 million on September 30, 2014, and $19.0 million on November 24, 2014, for a total of $43.0 million.

Table 2 - Summarized Changes in Net Investment Position		
		2015
Net Investment Income		
Investment Income	$	27,629
Net Capital Gains		246
Unrealized Gains		767,820
Less:		
Investment Expenses		(33,152)
Net Investment Income		**762,543**
Net Amount Contributed		43,006,000
Net Investment Position - Beginning		**-**
Net Investment Position - Ending	**$**	**43,768,543**

The fair value of the WSOSF net investment position is directly impacted by the returns of the various capital markets within which the WSIB invests, and the returns are expected to have a significant effect on financial position and results of operations in the future. However, one of the benefits of 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. The WSIB, with concurrence from the Developmental Disabilities Life Opportunities Trust Governing Board, makes the asset allocation decisions for the WSOSF assets. The WSIB staff rebalances the WSOSF's assets between asset classes as markets move, pursuant to WSIB policy.

Washington State Opportunity Scholarship Fund (WSOSF) Statement of Net Investment Position - June 30, 2015

See notes to financial statements

	WSOSF - Scholarship Fund	WSOSF - Endowment Fund	WSOSF - Cash Reserve	Total	Percent of Total
ASSETS					
Investments:					
CASH AND CASH EQUIVALENTS					
Money Market Funds	$ 13,001,694	$ 6,000,803	$ 1,784	$ 19,004,281	43.4%
DEBT SECURITIES					
Commingled Intermediate Credit	6,914,210	1,422,557	-	8,336,767	19.1%
EQUITY SECURITIES					
Commingled Equity Index Funds	10,606,332	5,823,084	-	16,429,416	37.5%
Total Investments	30,522,236	13,246,444	1,784	43,770,464	100.0%
Investment Earnings Receivable	2,244	1,036	-	3,280	
Total Assets	30,524,480	13,247,480	1,784	43,773,744	
LIABILITIES					
Accrued Expenses Payable	3,478	1,723	-	5,201	
NET INVESTMENT POSITION	**$ 30,521,002**	**$ 13,245,757**	**$ 1,784**	**$ 43,768,543**	

Washington State Opportunity Scholarship Fund (WSOSF) Statement of Changes in Net Investment Position - Year Ended June 30, 2015

See notes to financial statements

	WSOSF - Scholarship Fund	WSOSF - Endowment Fund	WSOSF - Cash Reserve	Total
Net Investment Income				
Investment Income:				
Interest, Dividends and Other Investment Income	$ 18,787	$ 8,837	$ 5	$ 27,629
Net Realized Capital Gains	159	87	-	246
Unrealized Gains	521,599	246,221	-	767,820
Less:	-	-	-	
Investment Expenses	(19,746)	(9,479)	(5)	(29,230)
WSIB Operating Expenses	(2,279)	(1,643)	-	(3,922)
Net Investment Income	518,520	244,023	-	762,543
Cash Transfers	2,482	1,734	(4,216)	-
Net Amount Contributed	30,000,000	13,000,000	6,000	43,006,000
Increase in Net Investment Position	30,521,002	13,245,757	1,784	43,768,543
Net Investment Position, June 30, 2014	-	-	-	-
Net Investment Position, June 30, 2015	$ 30,521,002	$ 13,245,757	$ 1,784	$ 43,768,543

Notes to Financial Statements

Note 1. Description of Funds and Significant Accounting Policies

Description of Funds

The Washington State Opportunity Scholarship Fund (WSOSF) was created by the Washington State Legislature in 2011, to encourage student participation in high employer-demand programs of study. The investment responsibility for the WSOSF is granted to the Washington State Investment Board, in accordance with RCW 28B.145.090. The WSOSF is comprised of two distinct pools of assets, each funded by a mix of private funds and state matching funds. The two pools are the scholarship and endowment accounts, as created by RCW 28B.145.040. The financial statements present only the activity of the WSOSF as managed by the WSIB. The WSIB has exclusive control of the investments held by the WSOSF. The financial statements do not present the financial position and results of operations of the WSIB or the activity of the WSOSF not managed by the WSIB.

Basis of Accounting

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States for governments, prescribed by the Governmental Accounting Standards Board (GASB) on the accrual basis of accounting.

Valuation of Investments

Investments are reported at fair value. Fair values are based on published market prices, quotations from national security exchanges, and security pricing services. Investments are adjusted to fair values monthly. Unrealized gains and losses are included as investment income in the Statement of Changes in Net Investment Position.

Revenue Recognition

Interest and dividend income are recognized when earned. Capital gains and losses are recognized on a trade date basis. Purchases and sales of investments are also recorded on a trade date basis.

Contributions and Withdrawals

Contributions and withdrawals are recorded when received or paid.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

Note 2. Fees and Expenses

Investment fees and expenses are accounted for as a reduction of investment income or are netted directly from the asset value of the WSOSF's investments. These fees include investment management fees and commissions, investment consultant fees, legal fees, and other investment management related expenses. The WSIB operating expenses are charged to the funds based upon actual costs incurred to manage the investments. The WSIB operating expenses are allocated to the funds under management based on relative market values, in accordance with state statutes.

Note 3. Deposit and Investment Risk Disclosures

Custodial Credit Risk

Custodial credit risk is the risk that in the event a depository institution or counterparty fails, the WSOSF will not be able to recover the value of its deposits, investments, or collateral securities. As of June 30, 2015, investment securities (excluding cash and cash equivalents) are registered and held in the name of the WSIB, for the benefit of the WSOSF, and are not exposed to custodial credit risk. There are no general policies relating to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. The risk is managed within the portfolios using effective duration, which is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. The WSOSF's investment policies require the duration range for the commingled intermediate credit fund not exceed plus or minus 15 percent of the Barclays Capital Intermediate Credit Index. Increases in prevailing interest rates generally translate into decreases in fair values of fixed income investments.

Schedule 1 and 2 provide information about the interest rate risks associated with the WSOSF investments, as of June 30, 2015. The schedules display various asset classes held by maturity in years, effective durations, and credit ratings. Fixed income securities are reported using the average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity for these securities, taking into account possible prepayments of principal.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The WSOSF's investment policies limit the fixed income securities to U.S. Inflation Indexed Bonds, and an internally managed bond fund consisting of corporate and foreign government and agency bonds. All fixed income securities must be investment grade or higher at the time of purchase. Investment grade securities are those fixed income securities with a Moody's rating of Aaa to Baa or a Standard and Poor's rating of AAA to BBB.

The WSOSF's rated debt investments as of June 30, 2015, were rated by Moody's or equivalent rating methodology.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. RCW 43.33A.140 requires corporate fixed income securities cost may not exceed 3 percent of the WSOSF fair value at the time of purchase, nor shall its fair value exceed 6 percent of the WSOSF Funds' fair value at any time. There was no concentration of credit risk that exceeded these limits as of June 30, 2015.

Foreign Currency Risk

Foreign currency risk is defined as any deposits or investments that are denominated in foreign currencies, which bear a potential risk of loss arising from changes in currency exchange rates. WSOSF has no formal policy to limit foreign currency risk. The only security held by the WSOSF with foreign currency exposure at June 30, 2015, consists of $16.4 million invested in an international commingled equity index funds (MSCI All Country World Investible Market Index).

Note 4. Summary of Investment Policy

Under RCW 43.33A.030, trusteeship of WSOSF is vested within the voting members of the WSIB. The Legislature has established a standard of care for investment of these funds in RCW 43.33A.140. Additionally, the WSIB and its staff must comply with other state laws, such as the Ethics in Public Service Act, Chapter 42.52 RCW, as it makes its investment decisions and seeks to meet the following investment objectives.

In accordance with RCW 43.33A.110, the portfolio is managed to achieve a maximum return at a prudent level of risk. The key determinate is identifying the prudent level of risk for a program relative to the needs of the WSOSF Board. Based on this requirement, the order of the objectives shall be:

- Maintain the financial stability of the program
- Ensure sufficient assets are available to fund the scholarship goals of the program over a 10-year time horizon
- Subject to the above, manage the assets to achieve a maximum return at a prudent level of risk
- Invest in a manner that will not comprise the confidence in the program.

Risk Constraint Standards

- All assets under management by the WSIB are to be invested to maximize return at a prudent level of risk, in accordance with the requirements of RCW 43.33A.110 and RCW 43.33A.140, subject to the unique risk tolerances of the WSOSF program
- No corporate fixed income issue's cost shall exceed 3 percent of the fund's market value at the time of purchase, nor shall its market value exceed 6 percent of the fund's market value at any time (RCW 43.33A.140)
- Diversify the assets at a prudent level to moderate fluctuations in the fair value of the program.

Scholarship and Endowment Account

The state provides matching funds to WSOSF to fund scholarships in partnership with private corporations. Investment eligibility of the matching funds is determined by the state constitution and laws. Private funds held in the scholarship account are comprised of donations from corporations and individuals and are not subject to state constitution investment eligibility guidelines.

Permissible Investments – State Matching Funds:

- Government agencies and U.S. Treasuries
- Short-term Investment Funds (STIF) that invest strictly in U.S government or agency instruments, including repurchase agreements

Asset Allocation

State Matching Funds		
	Target	Range
Cash	100%	100

Private Fund Scholarship		
	Target	Range
Cash	0%	0%-5%
Public Equity	60%	55%-65%
Fixed Income	40%	35%-45%

Private Fund Endowment		
	Target	Range
Cash	0%	0%-5%
Public Equity	80%	75%-85%
Fixed Income	20%	15%-25%

The public equity component will be invested to track the return of the MSCI All Country World Investible Market Index (MSCI ACWI IMI). The fixed income component is invested in the WSIB Bond Market Fund, with a benchmark of the Barclays Capital Intermediate Credit Index. In addition, the WSIB Bond Market Fund duration range shall not exceed plus or minus 15 percent of the duration of this index.

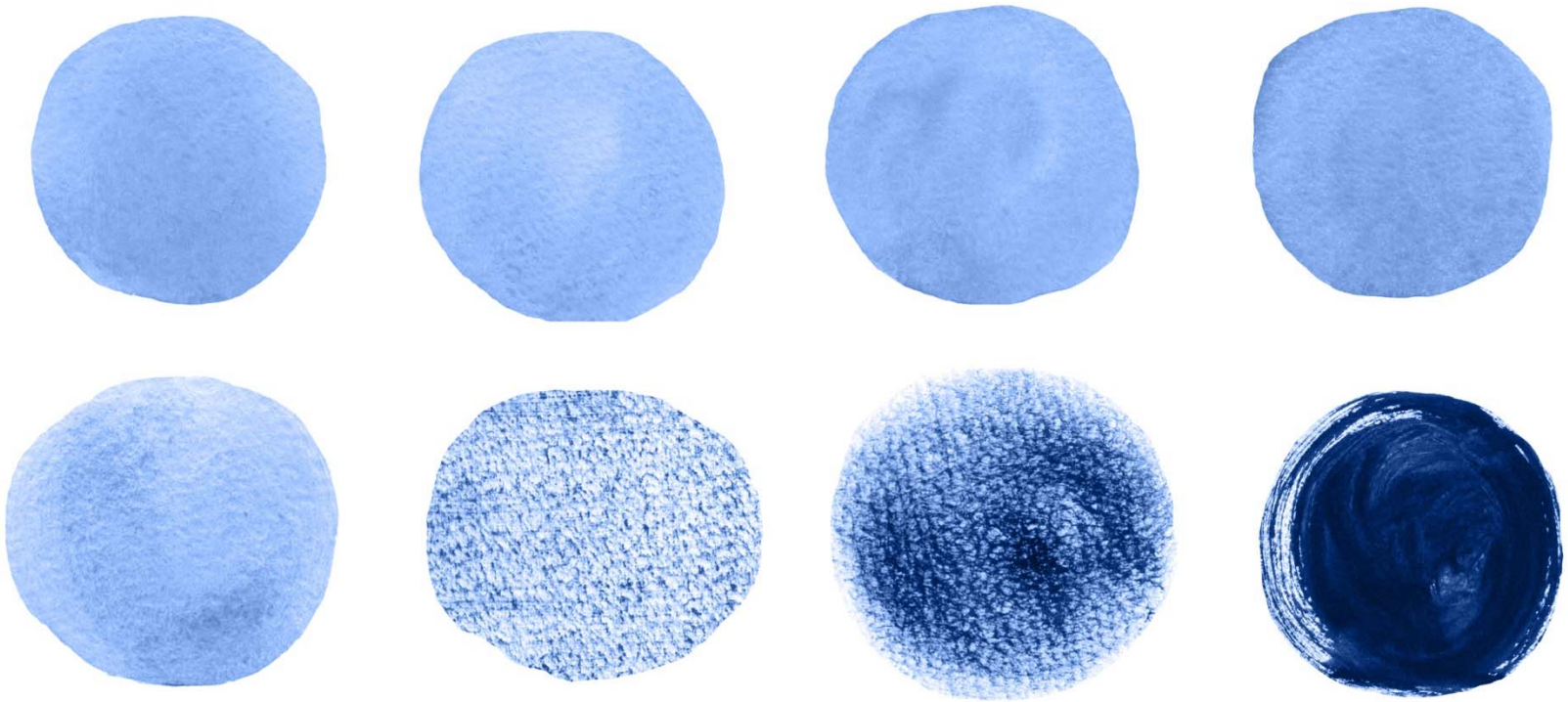
Schedule 1: Schedule of Maturities and Credit Ratings

Investment Type	Total Fair Value	Maturity: Less than 1 year	Maturity: 1-5 years	Maturity: 6-10 years	Maturity: More than 10 years	Effective Duration	Credit Rating
Commingled Intermediate Credit	$ 8,336,767	$ 818,453	$ 4,279,711	$ 3,192,976	$ 45,627	4.52	Schedule 2
Investments Not Required to be Categorized							
Commingled Equity Index Funds	16,429,416						
Money Market Funds	19,004,281						
Total Investments Not Categorized	35,433,697						
Total Investments	$ 43,770,464						

Schedule 2: Additional Credit Rating Disclosures

Commingled Intermediate Credit	
Moody's Equivalent Credit Rating	**Market Value**
Aaa	$ 491,775
Aa1	48,790
Aa2	142,755
Aa3	1,145,100
A1	566,196
A2	1,206,892
A3	1,073,201
Baa1	1,154,592
Baa2	1,261,188
Baa3	1,130,597
Ba1 and Lower	115,681
Total Fair Value	$ 8,336,767

DAILY VALUED FUNDS



Independent Auditor's Report

To the Members of the Washington State Investment Board
Olympia, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the Daily Valued Funds of the State of Washington, as managed by the Washington State Investment Board (the Daily Valued Funds), which comprise the statement of net investment position as of June 30, 2015, and the related statement of changes in net investment position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the investment position of the Daily Valued Funds as of June 30, 2015, and the changes in net investment position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Eide Bailly LLP

Boise, Idaho
September 30, 2015

Management Discussion and Analysis

Management's Discussion and Analysis for the Daily Valued Funds (DVF) of Washington State, managed by the Washington State Investment Board (WSIB), is presented as an introduction to the financial statements. It is meant to assist the reader in understanding the financial statements by providing an overall review of the financial activities during the year as well as to provide a comparison to the prior year's activities and results. The WSIB manages funds for other Washington State departments. This section of the report covers the DVF only.

The financial statements and footnotes follow this section of the report. The Statement of Net Investment Position provides information on the types of investments, assets, and liabilities of the DVF as of June 30, 2015. This information is summarized in Table 1. Table 1 also compares the asset, liability, and net investment balances at June 30, 2015, with those at June 30, 2014. The Statement of Changes in Net Investment Position provides information on investment performance and other increases and decreases in the net investment position of the DVF for the year ended June 30, 2015. This information is summarized in Table 2. Table 2 also compares the financial activities of the DVF for the year ended June 30, 2015, with those of the year ended June 30, 2014. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements of the DVF.

Net investment returns for the significant asset classes and in total for the DVF for the current fiscal year compared to the prior fiscal year are as follows:

Investment Returns	FY 2015	FY 2014
Investment Return Daily Valued Bond Fund	**1.8%**	**6.1%**
Investment Return Daily Valued Savings Pool	**0.5%**	**0.7%**
Investment Return Daily Valued TIPs Fund	**-1.6%**	**3.7% ***

* Since Inception Return from October 2013

As shown in Table 1, the net investment position of the DVF increased by $276.4 million during the fiscal year ended June 30, 2015. The increase in net investment position was primarily due to net contributions of $248.2 million and reinvestment of net investment income of $61.7 million. The remaining decrease in net investment position was the result of net realized and unrealized losses for the fiscal year.

Table 1 - Summarized Net Investment Position

	2015	2014	Dollar Change	Percent
Bond Fund Net Investment Position	$ 1,815,187,360	$ 1,482,562,397	$ 332,624,963	22.4%
Savings Pool Net Investment Position	867,230,559	941,656,211	(74,425,652)	-7.9%
TIPS Fund Net Investment Position	237,681,507	219,500,950	18,180,557	8.3%
Net Investment Position	**$ 2,920,099,426**	**$ 2,643,719,558**	**$ 276,379,868**	**10.5%**

The following summarizes the changes within each DVF net investment position listed in Table 1:

- The net investment position of the Bond fund increased by $332.6 million. Net contributions increased the balances by $305.1 million. Realized and unrealized losses decreased Bond Fund balances by $(28.0) million. The remaining increase was reinvestment of net interest income within the fund.

- The net investment position of the Savings Pool decreased by $(74.4) million. Withdrawals from the Savings Pool decreased balances by $(78.9) million. The remaining increase was due to reinvestment of net interest income within the fund.
- The net investment position of the Treasury Inflation Protected Security (TIPS) fund increased by $18.2 million. Net contributions increased the balances by $22.0 million. Realized and unrealized losses decreased TIPS fund balances by $(5.5) million. The remaining increase was net investment income reinvested within the funds.

The global low interest rate environment continued in Fiscal Year 2015 due to central bank policies, slow economic growth, and low inflation. In the U.S., the fixed income market experienced low absolute returns and the safest sectors outperformed the riskier ones. The Barclays Intermediate Credit Index underperformed the broad Aggregate index for the full fiscal year. Treasury yields fell for the first 7 months of the fiscal year and rose for the last 5 months. For the full year, long duration treasuries outperformed short duration treasuries but long duration credit underperformed. Credit spreads widened during the year, particularly for commodity producers. At the June meeting of the Federal Open Markets Committee, the Fed expressed optimism about the economy and indicated it could soon raise rates. U.S. TIPS performed poorly during the fiscal year. TIPS in the Barclays Index underperformed nominal treasuries by more than 400 basis points. The collapse of commodity prices was reflected in investors' inflation expectations. TIPS returned (1.7) percent for the fiscal years while nominal treasuries returned 2.3 percent.

As shown in Table 2, net investment income decreased by $(69.2) million from the prior year, almost entirely due to decreases in realized and unrealized gains and losses. All asset classes experienced lower investment returns in the current fiscal year compared to the prior year, which contributed to this decrease. Net contributions increased over the prior year mainly in the Bond Fund. During the current fiscal year, the Guaranteed Education Tuition Program sold approximately $229.4 million of TIPS securities held directly by the fund. The proceeds of these transactions were invested into the Bond Fund.

Table 2 - Summarized Changes in Net Investment Position

	2015	2014	Dollar Change
Net Investment Income			
Interest, Dividends and Other Investment Income	$ 62,751,599	$ 61,720,549	$ 1,031,050
Net Realized Capital Gains	3,194,131	4,092,120	(897,989)
Unrealized Gains (Losses)	(36,736,978)	32,976,056	(69,713,034)
Less:			
Investment Expenses	(1,024,596)	(1,368,619)	(344,023)
Net Investment Income	**28,184,156**	**97,420,106**	**(69,235,950)**
Net Amount Contributed	248,195,712	116,328,549	131,867,163
Net Investment Position - Beginning	**2,643,719,558**	**2,429,970,903**	**213,748,655**
Net Investment Position - Ending	**$ 2,920,099,426**	**$ 2,643,719,558**	**$ 276,379,868**

The fair value of the DVF net investment position is directly impacted by the returns of the various capital markets within which the WSIB invests, and the returns are expected to have a significant effect on financial position and results of operations in the future. However, one of the benefits of 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. The WSIB makes the asset allocation decisions for the DVF assets.

Daily Valued Funds (DVF) Statement of Net Investment Position - June 30, 2015

See notes to financial statements

	Bond Fund	Savings Pool	TIPS Fund	Total	Percent of Total
ASSETS					
Investments					
CASH AND CASH EQUIVALENTS	$ 8,838,593	$ 286,908,049	$ 2,778,980	$ 298,525,622	10.3%
DEBT SECURITIES					
Corporate Bonds	1,672,931,782	-	-	1,672,931,782	
U.S. Government and Agency Securities	-	-	234,061,522	234,061,522	
Guaranteed Insurance Contracts	-	580,338,096	-	580,338,096	
Foreign Government and Agencies	124,418,260	-	-	124,418,260	
Total Debt Securities	1,797,350,042	580,338,096	234,061,522	2,611,749,660	89.7%
Total Investments	1,806,188,635	867,246,145	236,840,502	2,910,275,282	100.0%
Investment Earnings Receivable	16,003,607	49,377	850,961	16,903,945	
Total Assets	1,822,192,242	867,295,522	237,691,463	2,927,179,227	
LIABILITIES					
Accounts Payable	20,772	64,963	9,956	95,691	
Payable for Investments Purchased	6,984,110	-	-	6,984,110	
Total Liabilities	7,004,882	64,963	9,956	7,079,801	
NET INVESTMENT POSITION	$ 1,815,187,360	$ 867,230,559	$ 237,681,507	$ 2,920,099,426	

Daily Valued Funds (DVF) Statement of Changes in Net Investment Position - Year Ended June 30, 2015

See notes to financial statements

	Bond Fund	Savings Pool	TIPS Fund	Total
Net Investment Income				
Investment Income:				
Interest, Dividends and Other Investment Income	$ 55,651,877	$ 5,340,848	$ 1,758,874	$ 62,751,599
Net Realized Capital Gains (Losses)	3,627,403	-	(433,272)	3,194,131
Unrealized Losses	(31,628,872)	-	(5,108,106)	(36,736,978)
Less:				
Investment Expenses	(166,238)	(838,411)	(19,947)	(1,024,596)
Net Investment Income	27,484,170	4,502,437	(3,802,451)	28,184,156
Net Amount Contributed (Withdrawn)	305,140,792	(78,928,089)	21,983,009	248,195,712
Increase in Net Investment Position	332,624,962	(74,425,652)	18,180,558	276,379,868
Net Investment Position - June 30, 2014	1,482,562,398	941,656,211	219,500,949	2,643,719,558
Net Investment Position - June 30, 2015	$ 1,815,187,360	$ 867,230,559	$ 237,681,507	$ 2,920,099,426

Notes to Financial Statements

Note 1. Description of Funds and Significant Accounting Policies

Description of Funds

The Daily Valued Funds (DVF) of Washington State consists of three commingled investment options managed exclusively by WSIB staff. All three investment options are valued daily at fair value or cost. The Bond Fund is available for investment by any fund under trusteeship of the WSIB. The trust is established to invest primarily in intermediate credit bonds. The Bond Fund is valued at fair market value. The Savings Pool is invested in cash and Guaranteed Investment Contracts (GICs) and is available for investment by the Deferred Compensation Program and the Judicial Retirement Account. The GICs are valued at cost. The Treasury Inflation Protected Security (TIPS) fund is available to any of the funds under trusteeship of the WSIB. The trust is established to invest in U.S Treasury Inflation Protection Securities. The TIPS fund is valued at fair market value.

Participants are allowed to buy and sell units within these options daily. The following are the participants and ownership percentages by each DVF:

Participants	Bond Fund	Savings Pool	TIPS Fund
Deferred Compensation Plan	12.7%	99.5%	0.0%
Judicial Retirement Account	0.0%	0.5%	0.0%
Washington State Retirement System Defined Contribution Participants	22.9%	0.0%	0.0%
Developmental Disabilities Endowment Trust Fund	0.5%	0.0%	0.0%
Guaranteed Education Tuition Program	42.3%	0.0%	0.0%
Washington State Opportunity Scholarship Fund	0.5%	0.0%	0.0%
Alliance Bernstein Retirement Strategy Funds	21.1%	0.0%	100.0%

The WSIB has exclusive control of the investments held by the DVF. The financial statements do not present the financial position and results of operations of the WSIB.

Basis of Accounting

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States for governments prescribed by the Governmental Accounting Standards Board (GASB) on the accrual basis of accounting.

Valuation of Investments

All investments are reported at fair value except Guaranteed Insurance Contracts (GICS) which are reported at cost. Fair values are based on published market prices, quotations from national security exchanges, and security pricing services. Investments are adjusted to fair values daily. Unrealized gains and losses are included as investment income in the Statement of Changes in Net Investment Position.

Revenue Recognition

Interest and dividend income are recognized when earned. Capital gains and losses are recognized on a trade date basis. Purchases and sales of investments are also recorded on a trade date basis.

Contributions and Withdrawals
Contributions and withdrawals are recorded when received or paid.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

Note 2. Fees and Expenses
Investment fees and expenses are accounted for as a reduction of investment income or are netted directly from the asset value of the DVF's investments. These fees include investment management fees and commissions, investment consultant fees, legal fees, and other investment management related expenses. The WSIB operating expenses are charged to the funds based upon actual costs incurred to manage the investments. WSIB operating expenses are allocated to the funds under management based on relative market values, in accordance with state statutes.

Note 3. Deposit and Investment Risk Disclosures
Custodial Credit Risk
Custodial credit risk is the risk that in the event a depository institution or counterparty fails, the DVF will not be able to recover the value of its deposits, investments, or collateral securities. As of June 30, 2015, investment securities (excluding cash, cash equivalents, and repurchase agreements held as securities lending collateral) are registered and held in the name of the WSIB for the benefit of the DVF participants, and are not exposed to custodial credit risk. There are no general policies relating to custodial credit risk.

Interest Rate Risk
Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. The risk is managed within the portfolios using effective duration which is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. The DVF investment policies require the duration range for the Bond Fund not exceed plus or minus 15 percent of the Barclays Capital Intermediate Credit Index. Increases in prevailing interest rates generally translate into decreases in fair values of fixed income investments. The durations of the TIPS Fund shall not exceed plus or minus 15 percent of the Barclays Capital U.S. Treasury Inflation Protected Securities Index.

Schedule 1 and 2 provide information about the interest rate risks associated with the DVF investments as of June 30, 2015. The schedules display various asset classes held by maturity in years, effective durations, and credit ratings. Fixed income securities are reported using the average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity for these securities, taking into account possible prepayments of principal.

Credit Risk
Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The DVF's investment policies limit the fixed income securities to investment grade or higher at the time of purchase. Investment grade securities are those fixed income securities with a Moody's rating of Aaa to Baa or a Standard and Poor's rating of AAA to BBB. The DVF rated debt investments as of June 30, 2015, were rated by Moody's and/or an equivalent national rating organization. Investment types with multiple ratings are presented in Schedule 2, using the Moody's rating scale.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. Revised Code of Washington (RCW) 43.33A.140 requires corporate fixed income securities cost may not exceed 3 percent of the DVF fair value at the time of purchase, nor shall its fair value exceed 6 percent of the DVF Funds' fair value at any time. There was no concentration of credit risk that exceeded these limits as of June 30, 2015.

Foreign Currency Risk

Foreign currency risk is defined as any deposits or investments that are denominated in foreign currencies, which bear a potential risk of loss arising from changes in currency exchange rates. The DVF have no formal policy to limit foreign currency risk. All securities held in the DVF are denominated in U.S. dollars and, accordingly, no foreign currency exposure exists at June 30, 2015, or during the fiscal year.

Note 4. Securities Lending

Washington State law and WSIB policy permit the DVF to participate in securities lending programs to augment investment income. The WSIB has entered into an agreement with State Street Corporation to act as agent for the WSIB in securities lending transactions. As State Street Corporation is the custodian bank for the WSIB, it is counterparty to securities lending transactions.

Securities on loan remain in the Statement of Net Investment Position in their respective categories. Cash collateral received is reported as a securities lending obligation, and the fair value of the reinvested cash collateral is reported as a security lending collateral in the Statement of Net Investment Position. Securities received as collateral where the DVF does not have the ability to pledge or sell the collateral unless the borrower defaults are not reported as assets and liabilities in the Statement of Net Investment Position. During the current fiscal year no available securities were on loan. Accordingly, there were no assets on loan at June 30, 2015, and no collateral held related to securities lending transactions in the DVF.

Note 5. Summary of Investment Policy

Under RCW 43.33A.030, trusteeship of the DVF is vested within the voting members of the WSIB. The Legislature has established a standard of care for investment of these funds in RCW 43.33A.140. Additionally, the WSIB and its staff must comply with other state laws, such as the Ethics in Public Service Act, Chapter 42.52 RCW, as it makes its investment decisions and seeks to meet the following investment objectives. In accordance with RCW 43.33A.110, the portfolios are managed to achieve a maximum return at a prudent level of risk.

BOND FUND: The fund is actively managed to meet or exceed the return of the Barclays Capital Intermediate Credit Index given a similar level of risk. Although fixed income securities that are rated below investment grade may not be purchased, portfolio holdings that are downgraded to those levels or are no longer rated may continue to be held. Permissible investments include any and all fixed income securities unless specifically prohibited. The portfolio shall be made up of large, liquid credit bonds to provide for daily pricing and to meet all participant withdrawals. The duration range shall not exceed plus or minus 15 percent of the Barclays Capital Intermediate Credit Index. Exposure to any corporate issuer will not exceed 3 percent of the fund's market value.

SAVINGS POOL: The primary objective for the fund is to ensure the preservations of principal, defined as the maintenance of a one-dollar net-asset value. The fund must hold sufficient cash to meet any withdrawal requests. The fund will attempt to earn the highest return possible consistent with maintaining the first two objectives of safety and liquidity. In general, the fund will strive to earn a return in excess of U.S. Treasury securities of similar maturities. A minimum of 1 percent of the savings pool funds should be retained in cash. Credit eligibility guidelines have been established for GICs and include: issuer must hold a certificate of authority in Washington State, have an Insurance Financial Strength rating of A+ or equivalent, have adjusted capital and surplus of at least $250 million, and contracts with any one company should not exceed 5 percent of that company's capital and surplus. The total principal value of term contracts by an issuer shall not exceed 15 percent of the Savings Pool upon execution of a new contract with that issuer.

TIPS FUND: The fund is actively managed to meet or exceed the return of the Barclays Capital U.S. Treasury Inflation Protected Securities Index. Permissible investments include any and all U.S. TIPS and cash. The durations of the portfolio shall not exceed plus or minus 15 percent of the Barclays Capital U.S. Treasury Inflation Protected Securities Index, other than during short periods of time while managing stakeholder cash flows.

Schedule 1: Schedule of Maturities and Credit Ratings

Investment Type	Total Fair Value	Maturity: Less than 1 year	Maturity: 1-5 years	Maturity: 6-10 years	Maturity: More than 10 years	Effective Duration *	Credit Rating
Corporate Bonds	$ 1,672,931,782	$ 141,117,834	$ 871,771,914	$ 650,107,663	$ 9,934,371	4.54	Schedule 2
U.S. Government and Agency Securities	234,061,522	-	93,383,936	92,251,651	48,425,935	6.20	Aaa
Guaranteed Insurance Contracts	580,338,096	234,048,944	346,289,152	-	-	N/A	Not Rated
Foreign Government and Agencies	124,418,260	19,249,002	60,061,438	45,107,820	-	4.36	Schedule 2
	2,611,749,660	$ 394,415,780	$ 1,371,506,440	$ 787,467,134	$ 58,360,306		
Investments Not Required to be Categorized							
Cash and Cash Equivalents	298,525,622						
Total Investments Not Categorized	298,525,622						
Total L&I Funds Investments	$ 2,910,275,282						

* Excludes cash and cash equivalents

Schedule 2: Additional Credit Rating Disclosures

Moody's Equivalent Credit Rating	Corporate Bonds	Foreign Government and Agency Securities
Aaa	$ 88,967,069	$ 17,056,480
Aa1	4,422,524	6,096,240
Aa2	14,877,015	15,900,070
Aa3	196,652,709	50,222,998
A1	115,938,023	6,129,972
A2	260,197,685	-
A3	231,374,722	-
Baa1	239,062,062	9,860,000
Baa2	262,563,522	9,340,000
Baa3	233,936,540	9,812,500
Ba1 or Lower	24,939,911	-
Total	$ 1,672,931,782	$ 124,418,260

Schedule 1: Schedule of Maturities and Credit Ratings

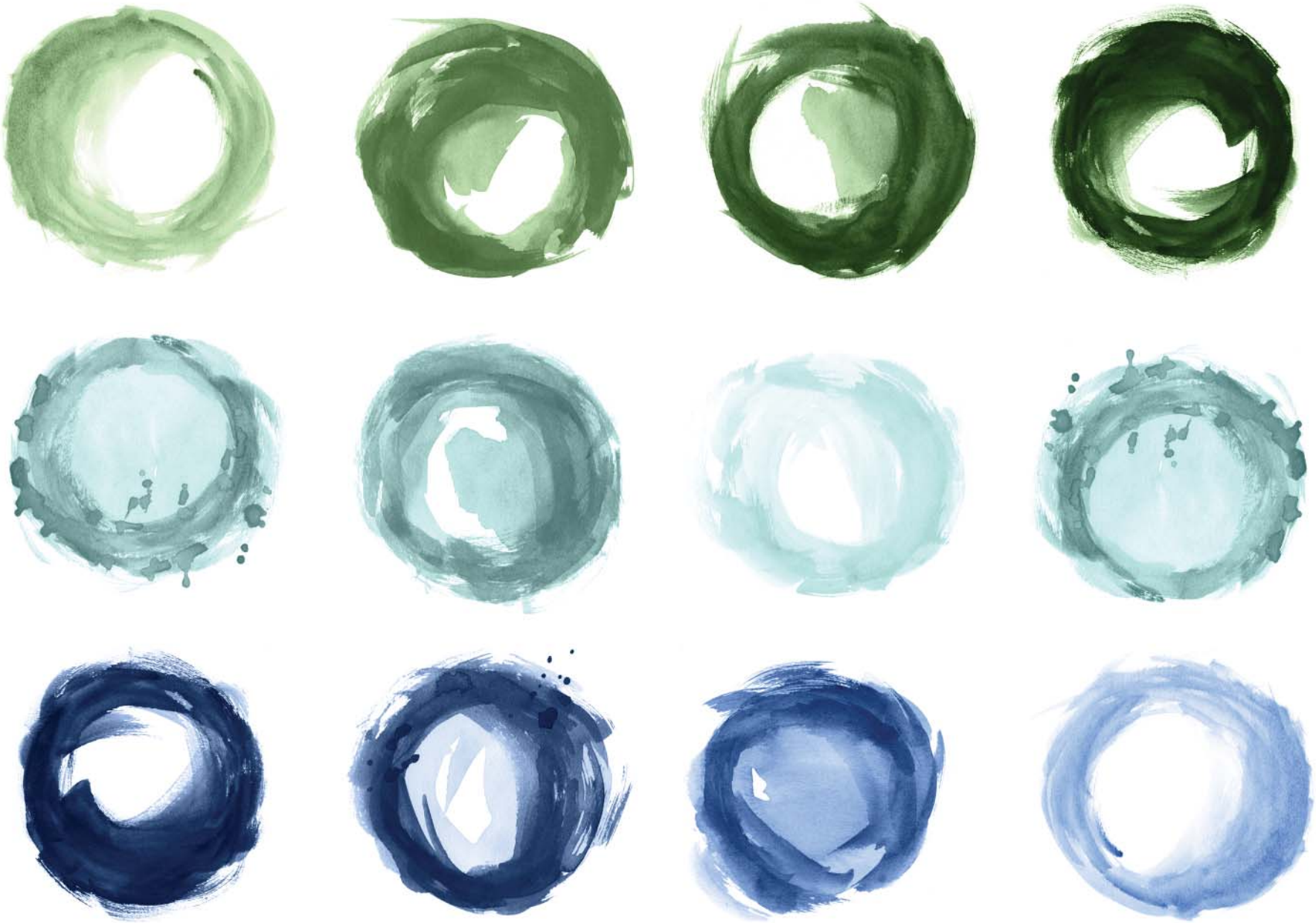
Investment Type	Total Fair Value	Maturity: Less than 1 year	Maturity: 1-5 years	Maturity: 6-10 years	Maturity: More than 10 years	Effective Duration *	Credit Rating
Corporate Bonds	$ 1,672,931,782	$ 141,117,834	$ 871,771,914	$ 650,107,663	$ 9,934,371	4.54	Schedule 2
U.S. Government and Agency Securities	234,061,522	-	93,383,936	92,251,651	48,425,935	6.20	Aaa
Guaranteed Insurance Contracts	580,338,096	234,048,944	346,289,152	-	-	N/A	Not Rated
Foreign Government and Agencies	124,418,260	19,249,002	60,061,438	45,107,820	-	4.36	Schedule 2
	2,611,749,660	$ 394,415,780	$ 1,371,506,440	$ 787,467,134	$ 58,360,306		
Investments Not Required to be Categorized							
Cash and Cash Equivalents	298,525,622						
Total Investments Not Categorized	298,525,622						
Total L&I Funds Investments	$ 2,910,275,282						

* Excludes cash and cash equivalents

Schedule 2: Additional Credit Rating Disclosures

Moody's Equivalent Credit Rating	Corporate Bonds	Foreign Government and Agency Securities
Aaa	$ 88,967,069	$ 17,056,480
Aa1	4,422,524	6,096,240
Aa2	14,877,015	15,900,070
Aa3	196,652,709	50,222,998
A1	115,938,023	6,129,972
A2	260,197,685	-
A3	231,374,722	-
Baa1	239,062,062	9,860,000
Baa2	262,563,522	9,340,000
Baa3	233,936,540	9,812,500
Ba1 or Lower	24,939,911	-
Total	$ 1,672,931,782	$ 124,418,260

WASHINGTON STATE INVESTMENT BOARD



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