2013

WASHINGTON STATE INVESTMENT BOARD

THIRTY-SECOND ANNUAL REPORT

INTRODUCTION

LETTER OF TRANSMITTAL

June 30, 2013

I am pleased to report that with the economy stabilizing and markets surpassing pre-crisis levels, this last year has brought room for cautious optimism. The Washington State Investment Board (WSIB) posted an annual return of 12.36 percent for fiscal year (FY) 2013. That was well above our mandated 8 percent rate of return. In fact, the Commingled Trust Fund (CTF) is exceeding the actuarial return assumption of 8 percent for the 1-year, 3-year, 10-year and since inception (July 1, 1992) time periods.

The WSIB's unique asset allocation has been, and will continue to be, the key to our success, with an overweight to private equity and real estate providing the bulk of our excess return. This past year we have seen the highest level of private equity distributions – proceeds from transactions such as the sale of a company or recapitalization – ever. Again, this is largely the result of our significant allocation to this asset class. Also, our real estate markets are on the upswing, with an annual return of 13.6 percent for the year. While the current economic climate has presented some challenges, the fixed income portfolio has outperformed over entire economic cycles.

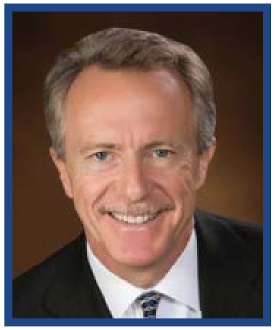
Beyond our ability to make smart investment decisions, I believe another key to the WSIB's positive returns is the analytical tools we have developed to understand and examine our portfolio. The WSIB has spent seven years creating a risk, research, and analytical infrastructure comprised of talented staff, partners and sophisticated tools that give us new information and insight into our global portfolio. We are better positioned than ever before to understand what drives performance at the total portfolio, asset class, geography, sector and strategy levels.

But 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



It is my privilege to present the 2013 Annual Report for the Washington State Investment Board (WSIB). This report provides investment performance and related financial information for the participants and beneficiaries of the retirement and other public funds managed by the WSIB.

The selection of asset classes, the amount invested in each of those asset classes are the greatest source of return and risk to the Commingled Trust Fund (CTF). Therefore, the CTF's strategic asset allocation mix is the foundation of the WSIB's investment program and crucial to its success. WSIB policy requires a formal review of the CTF's strategic asset allocation at least every four years. The last allocation study was conducted four years ago, with asset class targets and ranges approved by the Board in September, 2009.

As appropriate for the importance of the asset allocation decision, the Board spent considerable time on education and asset allocation discussions over the course of the past 14 months. This process included a review of the Board's Investment Beliefs for the CTF as well as determination of the collective Board investment risk appetite.

The Board participated in numerous education sessions on asset allocation which generated robust discussions with Board members, staff, and consultants on topics such as plan liabilities, capital market assumptions, pay-as-you-go risk, liquidity risk, and analysis of other leading portfolio allocation models. With each discussion the Board developed a more comprehensive view of the expected return and risk characteristics of the CTF portfolio and other risk considerations outside of that framework, such as liquidity.

To assist staff in developing a recommendation to maintain or change the asset targets approved in 2009, the Board participated in an interactive modeling process to see how different investment policies may affect the liabilities and costs of the CTF as a whole. After analyzing the results of the modeling process, staff recommended a modest change that increases target for real estate by 2% and reduces the private equity target by 2%. Targets for all other asset classes remain unchanged.

The new targets for private equity and real estate are designed to address the realities of managing the private equity portfolio as it grows and to provide a greater opportunity for the CTF to benefit from the WSIB's preferred method of real estate investing: real estate operating companies.

The WSIB invests in 74 countries, on 6 continents, within 49 currencies, and with more than 12,000 holdings. This well diversified global portfolio is designed to manage risk across different economic market conditions to produce the best possible returns. During its 32 year history, the WSIB's investment performance has consistently met and surpassed expectations and we have grown into one of the most highly respected institutional investment organizations in the country and throughout the world.

An important factor in the WSIB's sustained investment performance has been the outstanding quality of our staff and continuity of leadership. Their counsel and expertise has enabled the WSIB board to maintain consistency in our investment strategy that continues to pay dividends for both taxpayers and beneficiaries.

In the face of new challenges that lie ahead, I can assure you the WSIB will continue to pursue and secure successful investment opportunities to provide the best long-term results for the members and beneficiaries of all the funds for which we manage and invest. I want to thank the entire Board and WSIB staff for their contributions throughout the year and our constituents for their continued support and trust.

Treasurer James L. McIntire, 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.

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

General & Specialty Consultants

Courtland Partners, Ltd.
Duff & Phelps, LLC
EFL Associates of Colorado, Inc.
Funston Advisory Services, LLC
Glass, Lewis & Co.
Kamakura Corp.
KPM & Associates
McLagan
Meketa Investment Group, Inc.
Mercer Investment Consulting, Inc.
MSCI Inc.
Peterson Sullivan LLP
Real Asset Portfolio Management LLC
TorreyCove Capital Parterns

Legal Services

Coughlin Stoia
Cox, Castle & Nicholson LLP
Deminor Recovery Services
Goodwin, Procter, LLP
K & L Gates
Orrick, Herrington & Sutcliffe LLP
Paul Hastings LLP
Proskauer Rose LLP (Testa Hurwitz Thibeault)
Song Mondress PLLC
Topaz, Meltzer and Check, LLP

Private Equity, Real Estate, and Tangibles Consultant

Hamilton Lane Advisors, LLC

COMMINGLED TRUST FUND PARTNERS AND 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
Collison, Howe and Lennox
Cypress Group
Denham Capital
Doughty Hanson & Co.
Edgewater Funds
El Dorado Ventures
Elevation Partners
Endeavour Capital
Essex Woodlands
Evercore Capital Partners
Evergreen Pacific Partners
First Reserve Corp.
Fisher Lynch Capital
Flagship Ventures
Fortress Investment Group
FountainVest Partners
Francisco Partners
Frazier & Co.
Geocapital Partners
GGV Capital
Gilbert Global Equity Partners
Great Hill Partners
Green Mountain Partners
Gryphon Investors
GTCR
H.I.G. Ventures
HarbourVest Partners
Healthcare Ventures
Hellman & Friedman
Indigo Capital Partners
Insight Venture Partners
Intersouth Partners
InterWest Partners
JLL 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
Oak Investment Partners
Oaktree Capital Management
Olympus Partners
OVP Venture Partners
Palamon Capital Partners
Permira
Polaris Venture Partners
Prism Venture Partners
Providence Equity Partners
Richland Venture Partners
Roark Capital Group
Silver Lake Partners
Southern Cross Group
Spark Management Partners
Spectrum Equity Investors
Sprout Group
Swander Pace Capital
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
Värde Partners
Vestar Capital Partners
Vision Capital
Vivo Ventures
Warburg Pincus
Welsh Carson Anderson & Stowe
Worldview Technology Partners

Real Estate Partners

Cherokee
Corporate Properties of the Americas
Emerging Markets Fund of Funds
Evergreen Investment Advisors
Fillmore Capital Partners
Global Co-Investment
Hometown America
Hudson Advisors
Morgan Stanley
Pacific Realty
PBSC Holdings
Principal Enterprise Capital
Hemisferio Sul
Terramar Retail Centers
Warburg Pincus
Washington Holdings

Tangibles Partners

Alinda Capital Partners
Global Infrastructure Partners
Highstar Capital
Red Kite Management
Sheridan Production Partners
Stonepeak Infrastructure Partners
The Campbell Group

Public Equity Fund Managers

Aberdeen Asset Management PLC
Arrowstreet Capital, L.P.
BlackRock Institutional Trust Company
Capital Guardian Trust Co.
DE Shaw Investment Management
Grantham, Mayo, Van Otterloo & Co. LLC
JPMorgan Asset Management, Inc.
Lazard Asset Management LLC
Longview
Mondrian Investment Partners Ltd.
State Street Global Advisors
Wentworth, Hauser & Violich
William Blair & Co.

Overlay Manager

State Street Global Advisors

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.

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.

Advocates for good governance have seen substantial progress in the past few years, thanks in large part to the reforms mandated by the landmark Dodd-Frank Wall Street Reform and Consumer Protection Act. Among other things, the law requires companies to ask for shareholder approval of their executive compensation plans, referred to as say-on-pay. This year a number of corporate boards made changes to their compensation plans when threatened with an unfavorable vote. Of the 2,211 say-on-pay proposals, the WSIB said "no" to 328 plans.

Also this year, several directors who serve on the Board of Directors at large companies found themselves the target of shareholder frustration. The number of large company directors who failed to receive majority support from shareholders increased from previous years. Reasons for receiving less than 50 percent support included a failure to step down after past votes of majority opposition, failure to respond to majority-supported shareholder proposals in past years, poor attendance, failure to adequately oversee succession planning, and failure to submit a poison pill to shareholders.

The 2013 proxy voting season saw environmental and social policy proposals receive strong support, particularly those relating to political spending and lobbying disclosures, sustainability reporting, and board diversity.

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, 2012, and June 30, 2013 the WSIB voted 3,530 proxy ballots. Proxy votes were cast on 31,031 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 – 2,573 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 26 percent of the compensation plans proposed.
- Voted against 355 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.

June 30, 2013

OBJECTS OF EXPENDITURE

APPROPRIATED	Budget	Expenditures	Budget Variance
Salaries	$ 8,672,847	$ 8,119,827	$ 553,020
Benefits	2,064,883	1,948,702	116,181
Personal Service Contracts	60,796	149,027	(88,231)
Goods & Services	2,697,255	2,708,366	(11,111)
Travel	1,168,089	555,064	613,025
Equipment	36,438	164,685	(128,247)
Treasury Note	268,000	155,393	112,607
Subtotal Appropriated	$ 14,968,308	$ 13,801,064	$ 1,167,244

NON-APPROPRIATED	Budget	Expenditures	Budget Variance
Public Equity	$ 53,875,000	$ 46,597,066	$ 7,277,934
Private Equity	192,326,000	198,101,930	(5,775,930)
Real Estate	43,758,000	31,939,874	11,818,126
Tangible Assets	13,195,000	16,485,869	(3,290,869)
Innovation Portfolio	6,100,000	3,502,796	2,597,204
General Consultants	1,849,149	1,479,153	369,996
Advisory Services Consultants	3,000,000	-	3,000,000
Legal Fees	1,334,053	982,521	351,532
Custodian Bank Fees	798,153	38,005	760,148
Securities Lending	15,707,512	6,907,728	8,799,784
Cash Management	2,315,259	3,350,394	(1,035,135)
Cash Overlay	600,000	535,961	64,039
Investment Accounting Data System	1,486,650	1,452,863	33,787
Memberships	75,025	82,115	(7,090)
Research Services	2,413,879	2,491,228	(77,349)
Subtotal Non Appropriated	338,833,680	313,947,503	24,886,177
TOTAL	$ 353,801,988	$ 327,748,567	$ 26,053,421

INVESTMENTS

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 seven broad-based asset classes: public equity, fixed income, private equity, real estate, tangible assets, treasury inflation protected securities, 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

- No strategic asset allocation recommendations or changes were made to the funds managed by the WSIB during the fiscal year.

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 $43.5 billion to $67.9 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).

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 7.9 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 2013, $1.8 billion in cash was moved into the portfolio and $100 million was taken out. During that time the yield on the 10-year treasury went from 1.66 percent to 2.48 percent, reaching a low of 1.41 percent in July 2012 and a high of 2.58 percent in June 2013.

Highlights

- The portfolio outperformed the Barclays Universal Index for the year, returning 0.80 percent versus 0.24 percent for the Universal Index.
- Within the portfolio, credit bonds were overweighted, structured bonds were underweighted, and the weighting for U.S. government bonds was approximately neutral.
- Transactions totaled $3.9 billion in purchases and $0.8 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.
- $650 million was committed to four new funds during FY 2013.
- $286 million of committed capital was drawn during the fiscal year.
- $71 million in distributions were returned to the WSIB.

Real Estate

The WSIB's real estate program focuses primarily on creating high-quality, long-term, stable income streams for the CTF. Our partnership 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 potential appreciation, generate returns that are expected to fall between performance for fixed income and equities over the long-term.

Many of the WSIB's real estate partnerships do not involve co-investment with other financial investors. This provides us with superior 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 their 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.

Highlights

- For FY 2013, the portfolio returned 17.86 percent. Over the past year, positive returns were driven primarily from investments in the U.S. and Mexico. The U.S. produced good results in nearly all property sectors; strong returns in Mexico were from warehouse properties.
- The 10-year return for the WSIB's real estate portfolio was 9.51 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 8.51 percent 10-year return of the NCREIF Index (lagged a quarter).
- The strongest drivers of the good long-term returns were the WSIB's investments in real estate operating companies (REOCs), diversification, and an emphasis on quality properties and locations.

Public Equity

The public equity program uses a global benchmark, the Morgan Stanley All Country World with USA Gross Investable Market Index, reflecting the globalization of capital markets. In a world in which 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 that 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 equity in order to maintain policy weights in both areas. All the global equity mandates, in which investment firms can pick the most attractive stocks wherever they are in the world (U.S. or international), and all the emerging markets equity mandates are actively managed.

In FY 2013, equity markets in developed countries overcame much of the uncertainty that has plagued the macroeconomic environment recently and delivered extremely strong positive returns, with the global equity market rising 17.45 percent and the U.S. equity market rising 21.38 percent. Time will tell if these returns and the positive outlook they imply were either premature or getting ahead of the fundamentals. Emerging markets continued to lag developed markets, mainly driven by concerns of a slowdown in China, and emerging markets equities returned a much more modest 3.66 percent for the fiscal year.

The public equity program aims to protect during downward equity market moves. Vice versa, during strong equity markets, the program aims to deliver strong absolute returns but may lag the market benchmarks somewhat. This fiscal year, the program performed exceptionally well, delivering returns modestly better than the already very strong benchmark returns, and with every part of the program outperforming. As would be expected, the strongest outperformance was in the programs that are actively managed (global and emerging markets equity), while the programs that were mostly passively managed delivered performance close to the market returns. Overall, the CTF's program performed 38 basis points better than its benchmark return, returning 17.83 percent versus the benchmark return of 17.45 percent.

Highlights

- The U.S. equity program outperformed its benchmark by 6 basis points (bps) with a return of 21.44 percent versus the benchmark's 21.38 percent return.
- The developed international equity program returned 22 bps more than its benchmark with the portfolio returning 17.38 percent while the benchmark rose 17.16 percent.
- The global equity program performed 202 bps better than the benchmark, returning 19.47 percent versus the benchmark return of 17.45 percent.
- The emerging markets equity program outperformed its benchmark by 39 bps, returning 4.05 percent versus the benchmark return of 3.66 percent.
- The public equity portfolio within the CTF is conservatively structured. The aim is to adopt strategies that protect capital when markets decline, but remain close to market returns when there is a strong market upswing. Despite this conservative structure, every part of the program outperformed this past fiscal year.

Private Equity

As of June 30, 2013, the private equity portfolio was valued at $16.1 billion, or 23.63 percent of the CTF, compared with $16.1 billion and 26.02 percent at the previous fiscal year-end. While the portfolio appreciated significantly in FY 2013, distributions received by the WSIB from fund investments exceeded capital drawn for investment by approximately $2.0 billion during the fiscal year, resulting in a year-end valuation that was relatively unchanged from the previous year-end.

During the fiscal year, the WSIB closed on $2.6 billion of new commitments across 11 private equity funds. In addition to eight "re-up" commitments with existing partners, the program added three new general partner relationships during the year to address portfolio needs. Capital drawn for investment continued at a steady pace, virtually the same as the prior year. However, distribution activity from portfolio company liquidations was up 64 percent from the prior year, reflecting attractive capital markets and strong portfolio company performance.

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

- $2.6 billion in new commitments to funds were closed during FY 2013 compared to $4.4 billion in FY 2012.
- $2.1 billion of capital was drawn for investment during the fiscal year compared to $2.1 billion in the prior year.
- $4.1 billion in distributions were returned to the WSIB in FY 2013 compared with $2.5 billion in FY 2012.

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.

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 Retirements Systems (DRS). Therefore, performance information and the financial statements are provided by DRS.

PERS 3

$2.0 Billion

SERS 3

$1.4 Billion

TRS 3

$5.8 Billion

Deferred Compensation Program

$3.2 Billion

Judicial Retirement Account

$12.3 Million

Daily-Valued Funds for Self-Directed Investment Programs

Bond Market Fund

$1.4 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

$1.0 Billion

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.

Labor and Industries' Funds

$13.5 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

$916.2 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 and short-term holdings, with the exception of the Common School Fund, which is also invested in the U.S. Equity Market Index Fund.

Guaranteed Education Tuition Fund

$2.3 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

$38.5 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.

FINANCIALS

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, and DDEF. 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, 2013, 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, 2013.

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

petersonsullivan LLP

Certified Public Accountants
& Advisors

Independent Auditor's Report

To the Members of the Washington State Investment Board

Olympia, Washington

We have audited the accompanying financial statements of the Retirement Funds (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 assets as of June 30, 2013, and the related statement of changes in net assets 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; 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.

Auditor's 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. 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Retirement Funds as of June 30, 2013, and the changes in net assets for the year then ended in conformity with accounting principles generally accepted in the United States.

Emphasis of Matter – Investment Valuation

As explained in Note 1, the financial statements include investments valued at $26.5 billion (39% of net assets), 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, in the case of investments in partnerships, the general partners.

Management Discussion and Analysis

Accounting principles generally accepted in the United States require that the management's discussion and analysis preceding the financial statements be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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, 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 financial statements, and other knowledge we obtained during our audit of the 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The introduction and investments sections of the annual report are presented for purposes of additional analysis and are not a required part of the financial statements. The introduction and investments sections of the annual report have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

/S/ PETERSON SULLIVAN LLP

October 16, 2013

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 Assets 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 asset balances at June 30, 2013, with those at June 30, 2012. The Statement of Changes in Net Assets provides information on investment performance and other increases and decreases in the net assets of the Retirement Funds for the year ended June 30, 2013. This information is summarized in Table 2. Table 2 also compares the financial activities of the Retirement Funds for the year ended June 30, 2013, with those of the year ended June 30, 2012. 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.

As shown in Table 1, the net assets of the Retirement Funds increased by $6.1 billion during the fiscal year ended June 30, 2013, almost entirely due to current year market movements. Net realized and unrealized gains within the portfolio increased net assets by $6.0 billion. All asset classes experienced positive investment returns for the fiscal year except tangible assets, with a total fund return of 12.4 percent. Distributions to the retirement system decreased net assets by $(1.4) billion. Other investment income reinvested in the portfolio increased net assets by $1.5 billion.

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

- Liquid assets increased by $0.1 billion. This cash balance represents less than 3 percent of total invested balances. Initially, net investment income received from all asset classes is reinvested in money market funds. Net withdrawals to the Retirement Funds are also funded from cash balances. These balances fluctuate within policy targets as asset allocation decisions are made with accumulated cash to longer term investments. Transfers from other asset classes and reinvested in money market funds totaled $1.5 billion. Withdrawals by Retirement Funds to cover operating needs reduced liquid assets by $(1.4) billion.
- Fixed income securities increased by $1.5 billion during the current fiscal year. Transfers from other asset classes totaled $1.7 billion. Fixed income balances decreased by $(0.5) billion from realized and unrealized losses in the portfolio. The fixed income return for the current fiscal year was 0.8 percent compared to the prior year return of 5.5 percent. This decline is attributable to an increase in fixed income yields over the prior fiscal year which caused bond valuations to decrease. The remaining increase was income reinvested within the fixed income portfolio.
- Equities increased by $3.3 billion, almost entirely due to positive returns in the equity markets. Net realized and unrealized gains increased equities by $3.5 billion. Overall, the equity portfolio returned 17.7 percent for the current fiscal year. Transfers to other asset classes reduced equity balances by $0.6 billion. The remaining increase was income received and reinvested in equity securities.
- Alternative investments increased by $1.0 billion. Distributions received from general partners totaled $6.4 billion. The cash flow was used to fund capital calls of $3.9 billion. The remaining $2.5 billion of excess distributions received was transferred to other asset classes. Net realized and unrealized gains for the current fiscal year increased alternative investments by $2.9 billion. The remaining increase was due to reinvestment of income within the fund. Investment returns in private equity, real estate, and tangible assets were 13.6 percent, 19.3 percent, and (1.8) percent, respectively.
- Collateral held and obligations under securities lending agreements increased by $1.2 billion. All securities on loan were recalled as of June 30, 2012, in anticipation of a custodian bank transition on July 1, 2012. The lending program is currently fully operational as of the fiscal year end June 30, 2013.
- Open foreign exchange contracts receivable and payable increased by $0.3 billion. Investment managers use forward currency contracts in connection with the cash overlay program. Cash balances increased which increased the cash available for overlay. In addition, forwards are generally used

TABLE 1 - SUMMARIZED NET ASSETS	2013	2012	DOLLAR CHANGE	PERCENT CHANGE
Liquid Assets	$1,579,718,796	$1,500,573,033	$79,145,763	5.3%
Fixed Income Securites	14,107,131,598	12,570,898,610	1,536,232,988	12.2%
Equities	25,662,827,364	22,389,165,060	3,273,662,304	14.6%
Alternative Investments	26,479,629,732	25,514,273,415	965,356,317	3.8%
Total Investments	**67,829,307,490**	**61,974,910,118**	**5,854,397,372**	**9.4%**
Collateral Held Under Securities Lending Agreements	1,196,895,091	-	1,196,895,091	N/A
Open Foreign Exchange Contracts Receivable	1,328,714,454	1,032,957,451	295,757,003	28.6%
Other Receivables	533,163,875	216,343,312	316,820,563	146.4%
Total Assets	**70,888,080,910**	**63,224,210,881**	**7,663,870,029**	**12.1%**
Obligations Under Securities Lending Agreements	1,196,895,091	-	1,196,895,091	N/A
Open Foreign Exchange Contracts Payable	1,319,281,737	1,035,362,703	283,919,034	27.4%
Other Payables	384,332,611	344,136,269	40,196,342	11.7%
Total Liabilities	**2,900,509,439**	**1,379,498,972**	**1,521,010,467**	**110.3%**
Net Assets	**$67,987,571,471**	**$61,844,711,909**	**$6,142,859,562**	**9.9%**

in connection with equity overlays.

- Other receivables and other payables increased slightly due to increases in open and 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 year increased by $6.7 billion, almost entirely due to increases in net realized and unrealized gains from the previous year. The annual return for the year ended June 30, 2013, was 12.4 percent compared to the prior fiscal year return of 1.4 percent. Investment income and expenses remained relatively stable compared to the prior year with a slight increase correlated to increases in invested balances. Distributions to the Retirement System remained at consistent levels for the year ended June 30, 2013, increasing over the prior year by approximately 5 percent. Large increases in withdrawals, as seen in prior years due to reduced workforces and increasing pension payouts, stabilized during the past two fiscal years.

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. Retirement Fund assets are rebalanced by WSIB across asset classes, as appropriate, when fair values of assets fall outside policy ranges.

TABLE 2 - SUMMARIZED CHANGES IN NET ASSETS	2013	2012	DOLLAR CHANGE
Net Assets - Beginning	**$61,844,711,909**	**$62,350,140,078**	**$(505,428,169)**
Net Investment Income			
Investment Income	1,829,868,786	1,508,018,825	321,849,961
Net Realized and Unrealized Gains and Losses	5,965,143,595	(428,171,896)	6,393,315,491
Investment Expenses	(249,344,642)	(259,862,602)	(10,517,960)
Net Investment Income	**7,545,667,739**	**819,984,327**	**6,725,683,412**
Net Withdrawal by Retirement Plans	(1,402,808,177)	(1,325,412,496)	77,395,681
Net Assets - Ending	**$67,987,571,471**	**$61,844,711,909**	**$6,142,859,562**

Retirement Funds Statement of Net Assets - June 30, 2013

See notes to financial statements

	Commingled Trust Fund	Plan-Specific Investments	Total	Percent of Plan Assets
ASSETS				
Investments:				
LIQUIDITY				
Cash and Money Market Funds	$ 1,398,325,622	$ 85,034,521	$ 1,483,360,143	
Foreign Currency	96,358,653	-	96,358,653	
Total Liquidity	1,494,684,275	85,034,521	1,579,718,796	2.3%
FIXED INCOME SECURITIES (U.S. DOLLAR DENOMINATED)		-		
Asset Backed Securities	10,806	-	10,806	
Residential Mortgage Backed Securities	1,121,501,327	-	1,121,501,327	
Commercial Mortgage Backed Securities	213,136,164	-	213,136,164	
Corporate Bonds - Domestic	861,610,943	-	861,610,943	
Corporate Bonds - Foreign	3,928,374,162	-	3,928,374,162	
U.S. Government Treasury Securities	5,001,553,340	-	5,001,553,340	
Foreign Government and Agency Securities	1,247,989,298	-	1,247,989,298	
Total Fixed Income Securities (U.S. Dollar Denominated)	12,374,176,040	-	12,374,176,040	18.3%
FIXED INCOME SECURITIES (NON U.S. DOLLAR DENOMINATED)				
Corporate Bonds Domestic	54,629,036	-	54,629,036	
Corporate Bonds Foreign	270,496,015	-	270,496,015	
Foreign Government and Agency Securities	888,201,639	-	888,201,639	
Supranational Securities	519,628,868	-	519,628,868	
Total Fixed Income Securities (Non U.S. Dollar Denominated)	1,732,955,558	-	1,732,955,558	2.6%
CORPORATE STOCK (U.S. DOLLAR DENOMINATED)				
Corporate Stock - Domestic	2,515,609,568	-	2,515,609,568	
Corporate Stock - Foreign	946,198,960	-	946,198,960	
Total Corporate Stock (U.S. Dollar Denominated)	3,461,808,528	-	3,461,808,528	5.1%
CORPORATE STOCK (NON U.S. DOLLAR DENOMINATED)				
Corporate Stock - Domestic	92,432	-	92,432	
Corporate Stock - Foreign	10,792,767,353	-	10,792,767,353	
Total Corporate Stock (Non U.S. Dollar Denominated)	10,792,859,785	-	10,792,859,785	15.9%
COMMINGLED EQUITY INDEX FUNDS				
Commingled Index Funds - Domestic	9,731,356,704	-	9,731,356,704	
Commingled Index Funds - Foreign	1,676,802,347	-	1,676,802,347	
Total Commingled Equity Index Funds	11,408,159,051	-	11,408,159,051	16.8%
ALTERNATIVE INVESTMENTS				
Private Equity	16,066,332,390	-	16,066,332,390	
Real Estate	9,381,294,713	-	9,381,294,713	
Tangible Assets (Infrastructure, Natural Resources)	1,032,002,629	-	1,032,002,629	
Total Alternative Investments	26,479,629,732	-	26,479,629,732	39.0%
Total Investments	67,744,272,969	85,034,521	67,829,307,490	100.0%
Collateral Held Under Securities Lending Agreements	1,196,895,091	-	1,196,895,091	
Investment Earnings Receivable	199,769,154	35,873	199,805,027	
Receivables for Investments Sold	333,358,848	-	333,358,848	
Open Foreign Exchange Contracts Receivable	1,328,714,454	-	1,328,714,454	
Total Assets	70,803,010,516	85,070,394	70,888,080,910	
LIABILITIES				
Obligations Under Securites Lending Agreements	1,196,895,091	-	1,196,895,091	
Investment Management Fees Payable	9,458,170	15,357	9,473,527	
Payable for Investments Purchased	374,859,084	-	374,859,084	
Open Foreign Exchange Contracts Payable	1,319,281,737	-	1,319,281,737	
Total Liabilities	2,900,494,082	15,357	2,900,509,439	
NET ASSETS	$ 67,902,516,434	$ 85,055,037	$ 67,987,571,471	

Retirement Funds Statement of Changes in Net Assets - Year Ended June 30, 2013

See notes to financial statements

	Commingled Trust Fund	Plan-Specific Investments	Total
Net Investment Income			
Investment Income:			
Interest, Dividends, and Other Investment Income	$ 1,817,956,542	$ 653,502	$ 1,818,610,044
Securities Lending Income	11,258,742	-	11,258,742
Realized Capital Gains	2,980,721,590	-	2,980,721,590
Realized Capital Losses	(476,525,560)	-	(476,525,560)
Unrealized Gains	3,460,947,565	-	3,460,947,565
Less:			
Investment Expenses	(236,896,621)	(216,653)	(237,113,274)
Securities Lending Broker Rebates Paid and Bank Fees	(2,726,456)	-	(2,726,456)
WSIB Operating Expenses	(9,504,912)	-	(9,504,912)
Net Investment Income	7,545,230,890	436,849	7,545,667,739
Net Withdrawal by Retirement Plans	-	(1,402,808,177)	(1,402,808,177)
Investments in *Commingled Funds*	680,574,236	(680,574,236)	-
Withdrawals from Commingled Funds	(2,076,073,714)	2,076,073,714	-
Increase (Decrease) in Net Assets	6,149,731,412	(6,871,850)	6,142,859,562
NET ASSETS, JUNE 30, 2012	61,752,785,022	91,926,887	61,844,711,909
NET ASSETS, JUNE 30, 2013	$ 67,902,516,434	$ 85,055,037	$ 67,987,571,471

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 Assets.

The net assets 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 $26.5 billion (39 percent of total investments) as of June 30, 2013. Because of the inherent uncertainties in estimating fair values, it is reasonably 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 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 at which comparable companies trade.

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 valued every one to five 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 Assets. Liabilities resulting from these transactions are also included in each fund's net assets. 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 Assets does not include detailed holdings of securities lending collateral by investment classification.

Investments and Withdrawals

Investments 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 15 separate retirement plans and a 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 consists of the Public Employees' Retirement System (PERS) Plans 1 and 2/3; Teachers' Retirement System (TRS) Plans 1 and 2/3; School Employees'

Retirement System (SERS) Plans 2/3; 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 Department of Retirement Systems (DRS) for these invested balances.

Note 3. Breakdown of Plan Assets

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

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 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. WSIB operating expenses are allocated to the funds under management based on relative market values, in accordance with state statutes.

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, 2013, the Retirement Funds had a total of $18.8 billion in unfunded commitments in the following asset classes:

Private Equity	$10,161,407,316
Real Estate	$7,774,030,176
Innovation Portfolio	$52,320,125
Tangible Assets	$783,359,792

Schedule of Participation

RETIREMENT PLANS:	Commingled Trust Fund	Plan-Specific Investments	Total Plan Net Assets	Percent of Plan Assets
HIGHER ED. SUPPLEMENTAL INSURANCE FUND	$ 7,664,772	$ 493,311	$ 8,158,083	trace
LEOFF 1	5,137,906,052	1,505,750	5,139,411,802	7.6%
LEOFF 2	7,608,542,718	14,803,331	7,623,346,049	11.2%
PERS 1	7,344,392,495	4,514,515	7,348,907,010	10.8%
PERS 2/3 (DC and DB Plans)	24,520,346,732	21,040,012	24,541,386,744	36.1%
PUBLIC SAFETY EMPLOYEES 2	221,403,450	2,600,988	224,004,438	0.3%
SCHOOL EMPLOYEES 2/3 (DC and DB Plans)	4,238,137,973	7,035,897	4,245,173,870	6.2%
STATE PATROL 1	933,576,318	200,868	933,777,186	1.4%
STATE PATROL 2	20,339,820	400,934	20,740,754	trace
TEACHERS 1	6,127,555,393	3,211,545	6,130,766,938	9.0%
TEACHERS 2/3 (DC and DB Plans)	11,573,754,656	29,247,791	11,603,002,447	17.1%
VOLUNTEER FIREFIGHTERS	168,896,055	95	168,896,150	0.3%
Total Net Assets at June 30, 2013	**$ 67,902,516,434**	**$ 85,055,037**	**$ 67,987,571,471**	**100.0%**

Schedule of Investment Fees and Expenses

EQUITY SECURITIES:	Fees Paid	Netted Fees *	Total Fees	Assets Under Management
Public Equity - Emerging Markets	$ 12,297,487	$ 7,992,020	$ 20,289,507	$ 2,558,615,862
Active Equtiy - Global	24,666,563	-	24,666,563	7,092,555,106
Passive Equity - Global	973,599	-	973,599	16,011,656,396
ALTERNATIVE INVESTMENTS:				
Private Equity	159,296,768	36,989,928	196,286,696	16,066,332,390
Real Estate	13,559,381	21,805,301	35,364,682	9,381,294,713
Tangible Assets	19,228,127	-	19,228,127	1,032,002,629
CASH MANAGEMENT	2,164,306	-	2,164,306	1,483,360,143
OTHER FEES:				
Consultants and Accounting	1,768,019	-	1,768,019	NA
Legal Fees	982,521	-	982,521	NA
Research Services	1,945,011	-	1,945,011	NA
Miscellaneous Fees	231,492	-	231,492	NA
Total Investment Expenses	$ 237,113,274	$ 66,787,249	$ 303,900,523	$ 53,625,817,239

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

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, 2013, 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 those 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, 2013, 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, 2013. The schedule displays various asset classes held by maturity in years, effective durations, and credit ratings. Residential mortgage backed, commercial mortgage backed, and asset backed 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. All other securities on this schedule are reported using the stated maturity date.

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, 2013, 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, 2013.

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.

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, 2013 was approximately $1.4 billion. The securities on loan remain in the Statement of Net Assets in their respective categories. At June 30, 2013, cash collateral received totaling $1.2 billion is reported as a securities lending obligation, and the fair value of the re-invested cash collateral totaling $1.2 billion is reported as security lending collateral in the Statement of Net Assets. 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 Assets.

Fixed income and equity securities were loaned and collateralized by the Retirement Funds' agent with cash and U.S. Government or U.S. Agency Securities (exclusive of mortgage backed securities and 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, 2013.

Cash and Cash Equivalents	$275,285,871
Commercial Paper	217,356,149
Repurchase Agreements	670,261,251
US Treasury and Agency Securities	298,861,868
Miscellaneous	33,991,820
Total Collateral Held	**$1,495,756,959**

During fiscal year 2013, securities lending transactions could be terminated on demand by either Retirement Funds or the borrower. As of June 30, 2013, the collateral held had an average duration of 22.42 days and an average weighted final maturity of 57.44 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 2013, there were no significant violations of legal or contractual provisions, no failures by any borrowers to return loaned securities or to pay distributions thereon. The Retirement Funds incurred no losses during fiscal year 2013, 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. In connection with the cash overlay program, at June 30, 2013, 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 Assets 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, 2013, the Retirement Funds counterparty risk was not deemed to be significant.

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 generally 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, 2013, the Retirement Funds had outstanding forward currency contracts with a net unrealized gain of $9,248,812. At June 30, 2013, foreign exchange contracts receivable and payable reported on the statement of net assets consisted primarily of forward currency contracts. The aggregate foreign exchange contracts receivable and payable amounted to $1,328,714,454 and $1,319,281,737, respectively. The contracts have varying maturity dates ranging from July 1, 2013 to September 18, 2013.

The Retirement Funds' fixed income portfolio held derivative securities consisting of collateralized mortgage obligations with a fair value of $312 million at June 30, 2013. 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 foward currency contracts that are subject to credit risk outstanding at June 30, 2013 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, 2013 - Investment Derivative	
	Classification	**Amount**	**Amount**	**Notional**
FUTURES CONTRACTS:				
Bond Index Futures	Investment	$ (19,139,791)	$ (8,137,335)	565,700,000
Equity Index Futures	Investment	7,754,999	(688,684)	7,296,523
		$ (11,384,792)	$ (8,826,019)	572,996,523
FORWARD CURRENCY CONTRACTS:				
AUSTRALIAN DOLLAR	Investment	$ 3,286,559	$ 5,374,400	$ 87,699,780
CANADIAN DOLLAR	Investment	(2,555,911)	(2,745,892)	103,134,344
DANISH KRONE	Investment	(339,910)	(1,711,926)	141,819,601
EURO CURRENCY	Investment	(4,967,297)	5,554,490	377,770,905
HONG KONG DOLLAR	Investment	(38,233)	104,604	195,827,536
ISRAELI SHEKEL	Investment	(311,146)	17,132	2,674,505
JAPANESE YEN	Investment	6,978,494	3,241,038	148,776,627
MEXICAN PESO (NEW)	Investment	(61,145)	(72,228)	3,013,190
NEW ZEALAND DOLLAR	Investment	(4,014,357)	(1,997,246)	87,298,418
NORWEGIAN KRONE	Investment	286,923	339,531	8,472,592
POUND STERLING	Investment	(1,144,144)	360,781	46,012,760
SINGAPORE DOLLAR	Investment	(280,115)	(337,568)	21,580,602
SOUTH AFRICAN RAND	Investment	(100,966)	(123,692)	4,335,159
SWEDISH KRONA	Investment	336,451	752,634	45,161,835
SWISS FRANC	Investment	548,740	492,754	42,005,102
		$ (2,376,058)	**$ 9,248,812**	**1,315,582,954**

Note 10. Summary of Investment Policies

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 2013.

Strategic and Performance Objectives

In accordance with RCW 43.33A.110, the portfolio is managed to achieve a maximum 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; and
- Implementation Value Added: a custom benchmark consisting of the public market indices, as defined in each asset class's policy, weighted according to asset allocation targets. This differs from the passive benchmark as it is not an investable benchmark due to the uninvestable premium added to the real estate 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	13%	10 - 16%	+ or - 3%
Global Equity	37%	32 - 42%	+ or - 5%
Private Equity	25%	21 - 29%	+ 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 2015. 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 from active management consistent with prudent risk management and the desire for downside protection with passive management as the default;
- Provide diversification to the Retirement Funds' overall investment program;
- Maintain liquidity in public equity; and
- 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 with existing resources. 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:

- United States benchmark weight +/- 5 percent;
- Non-U.S. Markets (developed and emerging) benchmark weight +/- 5 percent; and
- Emerging Markets benchmark weight -5 percent to +10 percent.

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; and
- 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% – 60%
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 including 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 three investment strategies in the innovation portfolio, two involving private partnerships and one investing in public equities. Their individual holdings have been presented according to asset class on the Statement of Net Assets.

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 five years.

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	Credit Rating
Asset Backed Securities	$ 10,806	$ -	$ -	$ -	$ 10,806	7.88	Sched 2
Residential Mortgage Backed Securities	1,121,501,327	382,311,110	739,131,851	58,366	-	1.58	Sched 2
Commercial Mortgage Backed Securities	213,136,164	-	203,617,064	9,519,100	-	2.65	Aaa
Corporate Bonds Domestic (USD)	861,610,943	65,980,335	285,680,872	365,864,200	144,085,536	5.2	Sched 2
Corporate Bonds Domestic (Non USD)	54,629,036	36,340,631	18,288,405	-	-	1.01	Sched 2
Corporate Bonds Foreign (USD)	3,928,374,162	50,399,280	731,492,435	2,647,272,051	499,210,396	6.19	Sched 2
Corporate Bonds Foreign (Non USD)	270,496,015	-	186,658,428	53,409,139	30,428,448	4.68	Sched 2
US Government Treasuries	5,001,553,340	861,217,807	3,086,877,521	1,053,458,012	-	3.18	Aaa
Foreign Government and Agencies (USD)	1,247,989,298	27,128,452	159,094,428	867,913,021	193,853,397	6.19	Sched 2
Foreign Government and Agencies (Non USD)	888,201,639	40,146,721	319,178,849	283,297,021	245,579,048	5.79	Sched 2
Supranational Securities (Non USD)	519,628,868	137,682,957	287,106,880	94,839,031	-	2.25	Aaa
Total Retirement Funds Investment Categorized	14,107,131,598	$ 1,601,207,293	$ 6,017,126,733	$ 5,375,629,941	$ 1,113,167,631		
Investments Not Required to be Categorized							
Corporate Stock - U.S. Dollar Denominated	3,461,808,528						
Corporate Stock - Non U.S. Dollar Denominated	10,792,859,785						
Commingled Equity Index Funds	11,408,159,051						
Alternative Investments	26,479,629,732						
Liquidity	1,579,718,796						
Total Investments Not Categorized	53,722,175,892						
Total Investments	$ 67,829,307,490						

Schedule 2: Additional Credit Rating Disclosures

Investment Type	Total Fair Value	Moody's Equivalent Credit Rating: Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3	Ba1 or Lower
Asset Backed Securities	$ 10,806	$ -	$ 10,806	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Residential Mortgage Backed Securities	1,121,501,327	1,106,243,290	-	-	-	1,854,856	1,713,520	-	-	11,689,661	-	-
Corporate Bonds Domestic (USD)	861,610,943	-	-	16,833,367	38,046,835	19,391,654	184,772,623	52,881,697	240,424,578	152,218,461	53,379,684	103,662,044
Corporate Bonds Domestic (Non USD)	54,629,036	-	-	-	-	-	18,288,405	-	36,340,631	-	-	-
Corporate Bonds Foreign (USD)	3,928,374,162	-	-	27,859,651	35,323,575	75,686,015	110,549,400	257,644,197	422,302,136	1,058,677,971	1,077,594,070	862,737,147
Corporate Bonds Foreign (Non USD)	270,496,015	-	-	-	-	10,537,940	57,738,830	-	18,197,868	84,983,719	81,813,059	17,224,599
Foreign Government and Agencies (USD)	1,247,989,298	8,883,131	17,964,224	28,000,000	169,265,179	246,563,037	22,928,955	25,195,000	86,573,568	259,732,112	239,016,592	143,867,500
Foreign Government and Agencies (Non USD)	888,201,639	172,784,280	63,322,163	-	60,397,363	40,146,721	16,281,620	96,050,411	74,822,211	80,192,843	235,280,259	48,923,768
Total	$ 8,372,813,226	$ 1,287,910,701	$ 81,297,193	$ 72,693,018	$ 303,032,952	$ 394,180,223	$ 412,273,353	$ 431,771,305	$ 878,660,992	$ 1,647,494,767	$ 1,687,083,664	$ 1,176,415,058

Schedule 3: Foreign Currency Exposure by Country

	Investment Type In U.S. Dollar Equivalent							
Foreign Currency Denomination	Currency	Fixed Income	Corporate Stock	Commingled Index Funds	Private Equity	Real Estate	Total	Percent of Total Retirement Funds Investments
Australia-Dollar	$ 4,464,156	$ 408,093,843	$ 565,325,118	$ -	$ -	$ -	$ 977,883,117	1.5%
Brazil-Real	194,369	340,301,384	78,776,310	-	-	-	419,272,063	0.6%
Canada-Dollar	12,409,137	-	725,351,448	-	-	-	737,760,585	1.1%
Chile-Peso	-	155,555,075	420,784				155,975,859	0.2%
Columbia-Peso	-	135,552,817	-				135,552,817	0.2%
Denmark-Krone	49,417	-	86,011,187	-	-	-	86,060,604	0.1%
E.M.U.-Euro	14,314,590	-	2,660,646,554	-	2,349,429,184	201,709,846	5,226,100,174	7.7%
Hong Kong-Dollar	3,390,699	-	405,601,084	-	-		408,991,783	0.6%
India - Rupee	383,660	135,355,464	100,153,756	-	-	-	235,892,880	0.3%
Indonesia-Rupiah	118,668	63,811,514	72,289,150	-	-	-	136,219,332	0.2%
Japan-Yen	28,317,894	-	1,995,728,772	-	-	-	2,024,046,666	3.0%
Malaysia-Ringgit	345,186	67,807,966	18,252,583	-	-	-	86,405,735	0.1%
Mexico-Peso	(25,324)	85,065,907	42,971,587	-	-	-	128,012,170	0.2%
Singapore-Dollar	852,521	-	159,026,090	-	-	-	159,878,611	0.2%
South Korea-Won	531,359	-	123,100,746	-	-	-	123,632,105	0.2%
Sweden-Krona	4,473,760	-	280,693,541	-	-	-	285,167,301	0.4%
Switzerland-Franc	133,176	-	855,133,584	-	-	-	855,266,760	1.3%
Thailand-Baht	80,626	48,427,197	60,264,083				108,771,906	0.2%
Turkey-Lira	227,252	93,794,397	78,912,123	-	-	-	172,933,772	0.3%
United Kingdom - Pound	20,902,188	-	2,222,583,026	-	-	-	2,243,485,214	3.3%
Other - Miscellaneous	5,195,319	199,189,994	261,618,259	-	-	-	466,003,572	0.7%
	96,358,653	1,732,955,558	10,792,859,785	-	2,349,429,184	201,709,846	15,173,313,026	22.4%
Foreign Investments Denominated in U.S. Dollars	-	5,176,363,460	946,198,960	1,676,802,347	3,580,390,279	2,772,160,578	14,151,915,624	20.9%
	$ 96,358,653	$ 6,909,319,018	$ 11,739,058,745	$ 1,676,802,347	$ 5,929,819,463	$ 2,973,870,424	$ 29,325,228,650	43.3%

LABOR AND INDUSTRIES' FUNDS

petersonsullivan LLP

Certified Public Accountants
& Advisors

INDEPENDENT AUDITORS' REPORT

To the Members of the Washington State Investment Board

Olympia, Washington

We have audited the accompanying financial statements of the Labor & Industries' Funds of the State of Washington as managed by the Washington State Investment Board ("the Labor & Industries' Funds"), which comprise the statement of net assets as of June 30, 2013, and the related statement of changes in net assets 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; 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.

Auditor's 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. 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Labor & Industries' Funds as of June 30, 2013, and the changes in net assets for the year then ended in conformity with accounting principles generally accepted in the United States.

Management Discussion and Analysis

Accounting principles generally accepted in the United States require that the management's discussion and analysis preceding the financial statements be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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, 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 financial statements, and other knowledge we obtained during our audit of the 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The introduction and investments sections of the annual report are presented for purposes of additional analysis and are not a required part of the financial statements. The introduction and investments sections of the annual report have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

/S/ PETERSON SULLIVAN LLP

October 16, 2013

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 Assets provides information on the types of investments and the liabilities of the L&I Funds. This information is summarized in Table 1. Table 1 also compares the asset, liability, and net asset balances at June 30, 2013, with those at June 30, 2012. The Statement of Changes in Net Assets provides information on investment performance and other increases and decreases in the net assets of the L&I Funds for the year ended June 30, 2013. This information is summarized in Table 2. Table 2 also compares the financial activities of the L&I Funds for the year ended June 30, 2013, with those of the year ended June 30, 2012. 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.

As shown in Table 1, the net assets of the L&I Funds increased by $59.0 million during the fiscal year ended June 30, 2013. Interest and other net investment income reinvested in the fund totaled $463.0 million. Net realized and unrealized gains and losses for the year decreased net assets by $(239.1) million. Distributions to L&I reduced net assets by $(164.9) million.

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

- Money market funds increased by $101.6 million. This cash balance represents less than 1 percent of total invested balances and is within policy targets. 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 all asset classes is invested into money market funds and used within each asset class to reinvest in longer term securities as the cash becomes available. In addition, the net withdrawals by L&I were funded entirely from earnings deposited to money market funds.
- Fixed income securities decreased by $(192.1) million. Realized and unrealized losses decreased this asset class by $(524.9) million. The fixed income return for the current fiscal year was 1.68 percent compared to the prior year return of 8.1 percent. This decline is attributable to an increase in fixed income yields over the prior fiscal year which caused the bond markets to decline and valuations to decrease. During the current fiscal year, the fixed income portfolio was rebalanced and approximately $136.6 million was transferred from the equity portfolio and reinvested in fixed income securities. The remaining increase is income received and reinvested within the fixed income portfolio. In addition, rebalancing occurred within the fixed income portfolio. The Treasury Inflation Protection Securities (TIPS) balances were reduced by $(67.8) million and transferred to other fixed income securities.
- Equity investments increased by $150.2 million. Net realized and unrealized gains increased equities by $285.8 million due to positive investment returns in the equity markets. The equity portfolio returned 18.5 percent for the current fiscal year compared to the prior year return of (3.6) percent. During the current fiscal year, the equity portfolio was rebalanced and approximately $(136.6) million was transferred to fixed income accounts for long term investing. The remaining increase in equity balances was due to net investment income retained within the equity portfolio and reinvested long term.
- Collateral held and obligations under securities lending agreements increased by $26.3 million. The L&I Funds were in the process of transitioning to a new custodian bank during the prior fiscal year and lending activity had terminated during 2012 to facilitate this transition.

TABLE 1 - SUMMARIZED NET ASSETS	2013	2012	DOLLAR CHANGE	PERCENT CHANGE
Money Market Funds	$221,518,002	$119,899,904	$101,618,098	84.8%
Fixed Income Investments	11,429,577,938	11,621,705,988	(192,128,050)	-1.7%
Equity Investments	1,730,469,587	1,580,216,024	150,253,563	9.5%
Total Investments	**13,381,565,527**	**13,321,821,916**	**59,743,611**	**0.4%**
Collateral Held Under Securities Lending Agreements	26,381,220	-	26,381,220	NA
Investment Receivables - Other	108,982,693	109,788,984	(806,291)	-0.7%
Total Assets	**13,516,929,440**	**13,431,610,900**	**85,318,540**	**0.6%**
Obligations Under Securities Lending Agreements	26,381,220	-	26,381,220	NA
Investment Payables - Other	107,891	144,820	(36,929)	-25.5%
Total Liabilities	**26,489,111**	**144,820**	**26,344,291**	**18191.1%**
Net Assets	**$13,490,440,329**	**$13,431,466,080**	**$58,974,249**	**0.4%**

As shown in Table 2, the net amount withdrawn by L&I decreased by $(9.9) million. Net premiums collected by L&I increased due to an increase in the hours reported by employers during the year ended June 30, 2013, which resulted in less funds withdrawn to cover benefit payments.

Net investment income decreased from the prior fiscal year by $(785.8) million almost entirely due to decreases in realized and unrealized gains and losses. While the equity markets experienced significant appreciation from the prior fiscal year, the fixed income portfolio experienced significant depreciation due to the market environment. Bond yields increased causing fixed income values to decline. In addition, TIPS rallied over the last three years due to expected inflation increases. During the current fiscal year, a correction occurred as the expectations of high inflation were curbed. Returns within the equity and fixed income portfolios compared to the prior fiscal year are presented below:

	Fiscal Year End 2013	Fiscal Year End 2012
Fixed Income Returns	1.7%	8.1
Equity Returns	18.5%	-3.6%

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 between asset classes as markets move pursuant to WSIB policy.

TABLE 2 - SUMMARIZED CHANGES IN NET ASSETS	2013	2012	DOLLAR CHANGE
Net Investment Income			
Interest, Dividends and Other Investment Income	$467,084,400	$488,915,503	$(21,831,103)
Net Realized Capital Gains	88,959,456	547,773,298	(458,813,842)
Unrealized Losses	(328,087,133)	(20,280,790)	(307,806,343)
Less:			
Investment Expenses	(1,905,901)	(1,804,151)	101,750
Securities Lending Borrower Rebates and Bank Fees	(131,573)	(2,773,072)	(2,641,499)
WSIB Operating Expenses	(2,045,133)	(2,194,602)	(149,469)
Net Investment Income	**223,874,116**	**1,009,636,186**	**(785,762,070)**
Net Amount Withdrawn	(164,899,867)	(174,846,398)	(9,946,531)
Net Assets - Beginning	**13,431,466,080**	**12,596,676,292**	**834,789,788**
Net Assets - Ending	**$13,490,440,329**	**$13,431,466,080**	**$58,974,249**

L&I Funds Statement of Net Assets - June 30, 2013

See notes to financial statements

	Accident Fund	Medical Aid Fund	Pension Reserves Fund	Supplemental Pension Fund	Total	Percent of Total
ASSETS						
Investments:						
LIQUIDITY:						
Money Market Funds	$ 57,708,654	$ 29,306,361	$ 93,894,396	$ 40,608,591	221,518,002	1.7%
FIXED INCOME INVESTMENTS:						
Residential Mortgage Backed Securities	667,304,016	460,296,582	444,087,098	17,276	1,571,704,972	
Commercial Mortgage Backed Securities	157,445,326	131,129,788	99,673,963	-	388,249,077	
Corporate Bonds - Domestic	1,107,729,584	870,183,561	919,305,040	18,044,740	2,915,262,925	
Corporate Bonds - Foreign (USD)	948,924,650	772,304,595	775,770,352	13,029,747	2,510,029,344	
Foreign Government and Agencies (USD)	454,852,728	246,452,566	335,322,503	6,011,270	1,042,639,067	
Supranational Securities (USD)	72,640,491	67,783,219	20,631,568	-	161,055,278	
U.S. Government Treasuries	260,357,497	374,578,632	443,767,199	35,033,950	1,113,737,278	
U.S. Treasury Inflation Protected Securities	515,688,498	857,443,609	353,767,890	-	1,726,899,997	
Total Fixed Income Investments	4,184,942,790	3,780,172,552	3,392,325,613	72,136,983	11,429,577,938	85.4%
EQUITY INVESTMENTS:						
Commingled Index Funds - Domestic	322,291,885	481,867,890	258,127,782	-	1,062,287,557	
Commingled Index Funds - Foreign	213,256,779	284,564,897	170,360,354	-	668,182,030	
Total Equity Investments	535,548,664	766,432,787	428,488,136	-	1,730,469,587	12.9%
Total Investments	4,778,200,108	4,575,911,700	3,914,708,145	112,745,574	13,381,565,527	100.0%
Collateral Held Under Securities Lending Agreements	25,371,220	-	1,010,000		26,381,220	
Investment Earnings Receivable	41,982,136	33,662,990	33,153,049	173,061	108,971,236	
Receivable for Investments Sold	4,498	4,932	2,027	-	11,457	
Total Assets	4,845,557,962	4,609,579,622	3,948,873,221	112,918,635	13,516,929,440	
LIABILITIES						
Obligations Under Secruties Lending Agreements	25,371,220	-	1,010,000	-	26,381,220	
Accounts Payable	32,611	38,613	28,287	8,380	107,891	
Total Liabilities	25,403,831	38,613	1,038,287	8,380	26,489,111	
NET ASSETS	$ 4,820,154,131	$ 4,609,541,009	$ 3,947,834,934	$ 112,910,255	$ 13,490,440,329	

L&I Funds Statement of Changes in Net Assets - Year ended June 30, 2013

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	$ 182,324,575	$ 141,946,862	$ 140,167,023	$ 741,553	$ 465,180,013
Securities Lending Income	594,787	812,955	493,557	3,088	1,904,387
Realized Capital Gains	19,810,309	28,007,513	43,414,840	48,494	91,281,156
Realized Capital Losses	(119,744)	(1,669,389)	(529,952)	(2,615)	(2,321,700)
Unrealized Gains and Losses	(131,043,539)	(66,523,026)	(130,350,855)	(169,713)	(328,087,133)
Less:					
Investment Expenses	(671,289)	(633,812)	(489,339)	(111,461)	(1,905,901)
Securities Lending Borrower Rebates and Bank Fees	(39,328)	(33,512)	(58,012)	(721)	(131,573)
WSIB Operating Expenses	(742,617)	(699,663)	(585,639)	(17,214)	(2,045,133)
Net Investment Income	70,113,154	101,207,928	52,061,623	491,411	223,874,116
Residual Equity Transfer	(42,718,234)	-	42,718,234	-	-
Net Amount Contributed (Withdrawn)	(91,461,383)	(102,106,337)	14,525,639	14,142,214	(164,899,867)
Increase (Decrease) in Net Assets	(64,066,463)	(898,409)	109,305,496	14,633,625	58,974,249
Net Assets - June 30, 2012	4,884,220,594	4,610,439,418	3,838,529,438	98,276,630	13,431,466,080
Net Assets - June 30, 2013	$ 4,820,154,131	$ 4,609,541,009	$ 3,947,834,934	$ 112,910,255	$ 13,490,440,329

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 Assets.

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 Assets. 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 Assets does not include detailed holdings of securities lending collateral by investment classification.

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. 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, 2013, 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 those investments. As of June 30, 2013, 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, 2013. The schedule displays various asset classes held by maturity in years, effective durations, and credit ratings. Residential mortgage backed, commercial mortgage backed, and asset backed 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. All other securities on this schedule are reported using the stated maturity date.

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, 2013, 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 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, 2013.

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 security held by the L&I Funds with foreign currency exposure at June 30, 2013, consists of $668,182,030 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, 2013 was approximately $26.2 million. The securities on loan remain in the Statement of Net Assets in their respective categories. At June 30, 2013, cash collateral received totaling $26.4 million is reported as a securities lending obligation, and the fair value of the re-invested cash collateral totaling $26.4 is reported as security lending collateral in the Statement of Net Assets. 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 Assets.

Fixed income securities were loaned and collateralized by the L&I Funds' agent with cash and U.S. Government or U.S. Agency Securities (exclusive of mortgage backed securities and 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, 2013.

Cash and Cash Equivalents	$6,067,680
Commercial Paper	4,790,830
Repurchase Agreements	14,773,484
Miscellaneous	749,227
Total Collateral Held	**$26,381,221**

During fiscal year 2013, securities lending transactions could be terminated on demand by either L&I Funds or the borrower. As of June 30, 2013, the collateral held had an average duration of 22.42 days and an average weighted final maturity of 57.44 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 2013, 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 L&I Funds incurred no losses during fiscal year 2013, 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 rates while increasing portfolio returns. Derivative transactions involve, to varying degrees, market and credit risk. 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, and 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, 2013, the only derivative securities held directly by L&I Funds were collateralized mortgage obligations of $1,571,277,871.

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; and
- 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, and RCW 43.33A.140, which state, 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." and 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 value at the time of purchase, nor shall its fair value exceed 6 percent of the funds' fair value at any time per RCW 43.33A.140.

Asset Allocation

Fixed Income	TIPS	Equity
Accident Fund		
80%±4	10%±2	10%±2
Pension Reserve Fund		
80%±4	10%±2	10%±2
Medical Aid Fund		
65%±5	20%±3	15%±3
Supplemental Pension Fund		
100%	NA	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 meet quarterly with L&I staff to review the investment portfolio, the status of the funding levels, the liability durations, and to evaluate the percentage of the supplemental pension fund that is to be considered non-cash.

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 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) passive mandate. 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.

Treasury Inflation Protection Securities

The TIPS will be managed to plus or minus 20 percent of the duration of the Barclays Capital U.S. TIPS Index.

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

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
- Mortgage Backed Securities rated investment grade, as defined by Barclays Capital Global Family of Fixed Income Indices
- Asset Backed Securities rated investment grade, as defined by Barclays Capital Global Family of Fixed Income Indices
- Commercial Mortgage Backed Securities rated investment grade, 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% - 70%
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.

Total holdings of below investment grade credit bonds (as defined by Barclays Capital Global Family of Fixed Income Indices) should not exceed 5 percent of total fixed income holdings.

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
Residental Mortgage Backed Securities	$ 1,571,704,972	$ 23,168,336	$ 1,133,536,093	$ 384,247,786	$ 30,752,757	4.59	Aaa
Commercial Mortgage Backed Securities	388,249,077	13,785,672	339,824,367	34,639,038	-	2.85	Schedule 2
Corporate Bonds - Domestic	2,915,262,925	59,545,712	569,408,914	972,528,209	1,313,780,090	8.46	Schedule 2
Corporate Bonds - Foreign (USD)	2,510,029,344	51,555,510	671,292,753	889,082,441	898,098,640	7.39	Schedule 2
Foreign Government and Agencies(USD)	1,042,639,067	1,005,739	431,110,152	332,663,612	277,859,564	6.57	Schedule 2
Supranational Securities (USD)	161,055,278	-	161,055,278	-	-	2.70	Aaa
U.S. Government Treasuries	1,113,737,278	205,132,751	614,573,684	294,030,843	-	3.64	Aaa
U.S. Treasury Inflation Protected Securities	1,726,899,997	27,863,752	600,201,288	418,228,399	680,606,558	7.27	Aaa
	11,429,577,938	$ 382,057,472	$ 4,521,002,529	$ 3,325,420,328	$ 3,201,097,609		
Investments Not Required to be Categorized							
Commingled Index Funds-Domestic	1,062,287,557						
Commingled Index Funds-Foreign	668,182,030						
Money Market Funds	221,518,002						
Total Investments Not Categorized	1,951,987,589						
Total L&I Funds Investments	$ 13,381,565,527						

Schedule 2: Additional Credit Ratings Disclosures

Investment Type	Total Fair Value	Moody's Equivalent Credit Rating: Aaa	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3	Ba1 or Lower
Commercial Mortgage Backed Securities	$ 388,249,077	$ 336,369,339	$ -	$ 51,879,738	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Corporate Bonds - Domestic	2,915,262,925	5,580,053	32,538,406	170,665,283	145,241,451	720,939,680	374,225,721	671,080,608	619,912,112	129,744,563	45,335,048
Corporate Bonds - Foreign (USD)	2,510,029,344	1,011,900	-	266,428,560	176,194,141	48,543,161	302,844,532	424,204,662	594,510,519	541,890,769	154,401,100
Foreign Government and Agencies (USD)	1,042,639,067	139,846,226	51,791,300	251,228,366	205,970,425	-	-	58,375,738	123,235,025	135,866,987	76,325,000
Total	$ 6,856,180,413	$ 482,807,518	$ 84,329,706	$ 740,201,947	$ 527,406,017	$ 769,482,841	$ 677,070,253	$ 1,153,661,008	$ 1,337,657,656	$ 807,502,319	$ 276,061,148

PERMANENT FUNDS

petersonsullivan LLP

Certified Public Accountants
& Advisors

INDEPENDENT AUDITORS' REPORT

To the Members of the Washington State Investment Board

Olympia, Washington

We have audited the accompanying financial statements of the Permanent Funds (American Indian Scholarship Endowment, Agricultural College, Normal School, Common School, Scientific Fund, 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 assets as of June 30, 2013, and the related statement of changes in net assets 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; 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.

Auditor's 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. 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Permanent Funds as of June 30, 2013, and the changes in net assets for the year then ended in conformity with accounting principles generally accepted in the United States.

Management Discussion and Analysis

Accounting principles generally accepted in the United States require that the management's discussion and analysis preceding the financial statements be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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, 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 financial statements, and other knowledge we obtained during our audit of the 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The introduction and investments sections of the annual report are presented for purposes of additional analysis and are not a required part of the financial statements. The introduction and investments sections of the annual report have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

/S/ PETERSON SULLIVAN LLP

October 16, 2013

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 Assets provides information on the types of investments and the liabilities of the Permanent Funds. This information is summarized in Table 1. Table 1 also compares the asset, liability, and net asset balances at June 30, 2013, with those at June 30, 2012. The Statement of Changes in Net Assets provides information on investment performance and other increases and decreases in the net assets of the Permanent Funds for the year ended June 30, 2013. This information is summarized in Table 2. Table 2 also compares the financial activities of the Permanent Funds for the year ended June 30, 2013, with those of the year ended June 30, 2012. 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.

As shown in Table 1, the net assets of the Permanent Funds increased by $12.5 million during the fiscal year ended June 30, 2013. Contributions from the Department of Natural Resources (DNR) and Higher Education Coordinating Board increased net assets by $15.4 million, most of which was invested in equity securities. Net realized and unrealized gains and losses reduced net assets by $(2.9) million. Distributions to beneficiary funds reduced net assets by $(34.4) million. The remaining increase represents other net investment income earned within the investment portfolios.

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

- Money market funds decreased by $(1.5) million. This cash balance represents less than 1 percent of total invested balances and is within policy targets. Cash is held to cover distributions to beneficiary funds and can fluctuate from period to period. In addition, the Permanent Funds were accumulating cash to rebalance to a 30 percent equity target in the prior fiscal year inflating prior year balances. This rebalancing is expected to be fully completed in fiscal year 2014.
- Fixed income investments decreased by $(111.7) million. Realized and unrealized losses for the year totaled $(25.5) million, decreasing fixed income net asset values. This net loss is attributable to an increase in fixed income yields over the prior fiscal year which caused the bond markets to decline and valuations to decrease. Transfers to equities decreased fixed income securities by $(86.4) million. The remaining increase is comprised of accrued income retained within the Commingled Monthly Bond Fund (CMBF).
- Equity investments increased $125.7 million. A new commingled equity fund was started in June 2012, and transfers from fixed income accounts totaled $86.4 million during the current fiscal year. Contributions from DNR increased equity investments by $15.4 million. Realized and unrealized gains increased net assets by $22.6 million due to an equity return of 18.4 percent for the current fiscal year. The remaining increase was due to accrued income retained within the Commingled Monthly Equity Fund (CMEF).
- 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.

TABLE 1 - SUMMARIZED NET ASSETS	2013	2012	DOLLAR CHANGE	PERCENT CHANGE
Money Market Funds	$1,629,561	$3,133,013	$(1,503,452)	(48.0%)
Fixed Income Investments	674,815,397	786,533,877	(111,718,480)	(14.2%)
Equity Investments	239,798,331	114,124,758	125,673,573	110.1%
Total Investments	**916,243,289**	**903,791,648**	**12,451,641**	**1.4%**
Earnings Receivable	2,803,072	2,243,305	559,767	25.0%
Total Assets	**919,046,361**	**906,034,953**	**13,011,408**	**1.4%**
Distributions Payable	(2,803,054)	(2,243,781)	559,273	24.9%
Net Assets	**$916,243,307**	**$903,791,172**	**$12,452,135**	**1.4%**

As shown in Table 2, net investment income decreased by $(29.2) million, due to the decrease in realized and unrealized gains and losses. Current year fixed income investments, which comprise 73.7 percent of the net assets of the funds, returned 0.5 percent during fiscal year ended June 30, 2013. This is a significant decrease from the prior year return of 6.6 percent. The decrease in fixed income returns is attributable to an increase in fixed income yields which caused the bond market to decline and valuations to decrease.

Contributions received from DNR increased by $5.3 million due to increases in prices and volume of timber sales and other natural resources during the current fiscal year.

Distributable investment income (exclusive of realized and unrealized gains and losses) increased approximately $3 million during the current fiscal year. Average coupon rates decreased slightly in the fixed income portfolio to 4.1 percent. Fixed income invested balances decreased throughout the year as maturities were reinvested in equity securities. The CMBF investment earnings declined approximately $(3) million as a result of these transfers. The CMEF distributable investment income increased by $6 million as invested balances grew over the prior year due to rebalancing of the funds. The dividend yield in the CMEF was 3.49 percent for the current fiscal year. The increase in dividend income for equity securities is due to the increase in invested balances. In addition, the CMEF changed the dividend distribution policy from a quarterly to a monthly basis. The beneficiary funds received an additional quarter of income in the current year due to the policy change.

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.

TABLE 2 - SUMMARIZED CHANGES IN NET ASSETS	2013	2012	DOLLAR CHANGE	PERCENT CHANGE
Net Investment Income				
Interest, Dividends and Other Investment Income	$34,473,654	$31,306,472	$3,167,182	10.1%
Realized and Unrealized Gains (Losses)	(2,949,551)	29,486,603	(32,436,154)	(110.0%)
Less:				
Investment Fees	(136,661)	(183,353)	(46,692)	(25.5%)
Net Investment Income	**31,387,442**	**60,609,722**	**(29,222,280)**	**(48.2%)**
Net Amount Contributed	15,415,467	10,089,582	5,325,885	52.8%
Distributions to Beneficiaries	(34,350,774)	(31,450,778)	2,899,996	9.2%
Net Assets - Beginning	**903,791,172**	**864,542,646**	**39,248,526**	**4.5%**
Net Assets - Ending	**$916,243,307**	**$903,791,172**	**$12,452,135**	**1.4%**

Permanent Funds Statement of Net Assets - June 30, 2013

See notes to financial statements

	American Indian Scholarship Endowment	Agricultural College	Normal School	Common School	Scientific	State University	Total	Percent of Total
ASSETS								
Investments:								
Money Market Funds	$ 19,091	$ 379,991	$ 107,000	$ 111,998	$ 998,981	$ 12,500	$ 1,629,561	0.2%
Commingled Monthly Bond Fund	340,595	149,598,536	191,115,151	141,974,141	167,276,106	24,510,868	674,815,397	73.7%
Commingled Monthly Equity Fund	-	52,072,882	62,483,085	57,063,456	59,684,949	8,493,959	239,798,331	26.1%
Total Investments	359,686	202,051,409	253,705,236	199,149,595	227,960,036	33,017,327	916,243,289	100.0%
Investment Earnings Receivable	947	617,171	772,677	615,479	695,829	100,969	2,803,072	
Total Assets	360,633	202,668,580	254,477,913	199,765,074	228,655,865	33,118,296	919,046,361	
LIABILITIES								
Distributions and Other Payables	947	617,166	772,677	615,478	695,818	100,968	2,803,054	
NET ASSETS	$ 359,686	$ 202,051,414	$ 253,705,236	$ 199,149,596	$ 227,960,047	$ 33,017,328	$ 916,243,307	

Permanent Funds Statement of Changes in Net Assets - Year Ended June 30, 2013

See notes to financial statements

	American Indian Scholarship Endowment	Agricultural College	Normal School	Common School	Scientific	State University	Total
Net Investment Income							
Investment Income:							
Interest, Dividends and Other Investment Income	$ 13,074	$ 7,581,951	$ 9,608,093	$ 7,538,810	$ 8,495,369	$ 1,236,357	$ 34,473,654
Net Realized Capital Gains	-	1,787,701	2,164,849	1,582,665	1,884,072	278,975	7,698,262
Unrealized Losses	(12,575)	(2,669,200)	(3,496,306)	(1,230,898)	(2,802,191)	(436,643)	(10,647,813)
Less:							
Investment Expenses	(28)	(604)	(314)	(198)	(660)	(64)	(1,868)
WSIB Operating Expenses	-	(29,669)	(37,644)	(29,425)	(33,218)	(4,837)	(134,793)
Net Investment Income	471	6,670,179	8,238,678	7,860,954	7,543,372	1,073,788	31,387,442
Other Changes in Net Assets							
Net Amount Contributed	3,378	4,317,793	2,109,716	854,648	7,294,383	835,549	15,415,467
Withdrawals and Distributions	(15,135)	(7,554,250)	(9,573,421)	(7,511,741)	(8,464,350)	(1,231,877)	(34,350,774)
Increase (Decrease) in Net Assets	(11,286)	3,433,722	774,973	1,203,861	6,373,405	677,460	12,452,135
Net Assets - June 30, 2012	370,972	198,617,692	252,930,263	197,945,735	221,586,642	32,339,868	903,791,172
Net Assets - June 30, 2013	$ 359,686	$ 202,051,414	$ 253,705,236	$ 199,149,596	$ 227,960,047	$ 33,017,328	$ 916,243,307

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 Department of Natural Resources (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 CMBF. The equity investments held by the Permanent Funds are commingled into one fund called the 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 Assets.

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 assets. Liabilities resulting from these transactions are also included in each fund's net assets. 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 2013 was $292,201. Securities lending expenses during the fiscal year totaled $99,203.

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. 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, 2013, 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. 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, 2013. The schedule displays various asset classes held by maturity in years, effective durations, and credit ratings. Residential mortgage backed, commercial mortgage backed, and asset backed 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. All other securities on this schedule are reported using the stated maturity date.

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, 2013.

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 are traded and denominated in U.S. dollars. The Permanent Funds had no investments with foreign currency risk exposure at June 30, 2013.

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, 2013, the fair value of the securities on loan in the CMEF was approximately $15.8 million. The securities on loan are reported in Schedule 3 in their respective categories. At June 30, 2013, cash collateral received totaling $15.2 million is reported as a securities lending obligation, and the fair value of the re-invested cash collateral totaling $15.2 million is reported as security lending collateral in Schedule 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 3.

Fixed income and equity securities were loaned and collateralized by the Permanent Funds' agent with cash and U.S. Government or U.S. Agency Securities (exclusive of mortgage backed securities and 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, 2013.

Cash and Cash Equivalents	$3,501,225
Commercial Paper	2,764,445
Repurchase Agreements	8,524,720
US Treasury and Agency Securities	1,076,407
Miscellaneous	432,325
Total Collateral Held	**$16,299,122**

During fiscal year 2013, securities lending transactions could be terminated on demand by either the Permanent Funds or the borrower. As of June 30, 2013, the collateral held had an average duration of 22.42 days and an average weighted final maturity of 57.44 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 2013, there were no significant violations of legal or contractual provisions, no failures by any borrowers to return loaned securities or to pay distributions thereon. The Permanent Funds incurred no losses during fiscal year 2013 resulting from a default by either the borrowers or the securities lending agents.

Note 5. Derivatives

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, and 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, 2013, the only derivative securities held directly by the Permanent Funds' CMBF were collateralized mortgage obligations of $101,736,190.

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; and
- 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.110 and 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.

Government Securities	10% – 50%
Credit Bonds	10% – 50%
Asset Backed Securities	0% – 10%
Commercial Mortgage Backed Securities	0% – 10%
Mortgage Backed Securities	5% – 40%
Total	100%

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 (MSCI U.S. IMI Index)	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 Asset Value

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
Residential Mortgage Backed	$ 104,561,806	$ 5,310,351	$ 89,123,235	$ 7,911,400	$ 2,216,820	2.56	Schedule 2
Commercial Mortgage Backed Securities	16,485,369	-	16,485,369	-	-	2.42	Aaa
Corporate Bonds - Domestic (USD)	163,097,918	7,039,335	78,597,112	42,546,452	34,915,019	5.79	Schedule 2
Corporate Bonds - Foreign (USD)	72,086,626	5,230,338	38,887,390	22,111,671	5,857,227	4.45	Schedule 2
U.S. Government Treasuries	248,030,764	-	156,103,215	91,927,549	-	4.85	Aaa
Foreign Government and Agencies (USD)	37,818,053	-	21,372,485	16,445,568	-	3.85	Schedule 2
Supranational Corporate Bonds (USD)	21,162,962	-	21,162,962	-	-	2.68	Aaa
	663,243,498	$ 17,580,024	$ 421,731,768	$ 180,942,640	$ 42,989,066	4.49	
Money Market Funds	7,901,793						
Investment Earnings Receivable	5,539,993						
Total Commingled Bond Fund Investments	676,685,284						
Distributions and other payables	(1,869,887)						
CMBF Net Asset Value - June 30, 2013	$ 674,815,397						

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

Rating	Residential Mortgage Backed	Corporate Bonds Domestic	Corporate Bonds Foreign (USD)	Foreign Government and Agencies (USD)
AAA	$ 104,392,870	$ -	$ -	$ 10,507,145
Aa1	-	-	-	-
Aa2	168,936	-	-	-
Aa3	-	-	11,374,387	5,275,046
A1	-	5,836,030	11,296,881	10,865,340
A2	-	76,994,847	-	-
A3	-	33,326,768	11,729,048	-
Baa1	-	23,203,297	12,779,914	-
Baa2	-	18,134,458	15,900,688	11,170,522
Baa3	-	5,602,518	9,005,708	-
	$ 104,561,806	$ 163,097,918	$ 72,086,626	$ 37,818,053

Schedule 3: Commingled Monthly Equity Fund (CMEF) Schedule of Net Asset Value

Investment Type	
Cash and Equivalents	$ 1,872,359
Corporate Stock Domestic	231,142,416
Corporate Stock Foreign	7,073,565
Receivables	680,732
Collateral Held Under Securities Lending Agreements	15,222,714
Payables	(970,741)
Obligations Under Securities Lending Agreements	(15,222,714)
CMEF Net Asset Value June 30, 2012	$ 239,798,331

GUARANTEED EDUCATION TUITION FUND

petersonsullivan LLP

Certified Public Accountants
& Advisors

INDEPENDENT AUDITORS' REPORT

To the Members of the Washington State Investment Board

Olympia, Washington

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 assets as of June 30, 2013, and the related statement of changes in net assets 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; 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.

Auditor's 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. 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Guaranteed Education Tuition Fund as of June 30, 2013, and the changes in net assets for the year then ended in conformity with accounting principles generally accepted in the United States.

Management Discussion and Analysis

Accounting principles generally accepted in the United States require that the management's discussion and analysis preceding the financial statements be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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, 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 financial statements, and other knowledge we obtained during our audit of the 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The introduction and investments sections of the annual report are presented for purposes of additional analysis and are not a required part of the financial statements. The introduction and investments sections of the annual report have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

/S/ PETERSON SULLIVAN LLP

October 16, 2013

MANAGEMENT DISCUSSION AND ANALYSIS

Management's Discussion and Analysis for the Guaranteed Education Tuition Fund (GET), 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 Assets provides information on the types of investments and the liabilities of GET. This information is summarized in Table 1. Table 1 also compares the asset, liability, and net asset balances at June 30, 2013, with those at June 30, 2012. The Statement of Changes in Net Assets provides information on investment performance and other increases and decreases in the net assets of GET for the year ended June 30, 2013. This information is summarized in Table 2. Table 2 also compares the financial activities of GET for the year ended June 30, 2013, with those of the year ended June 30, 2012. 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 GET.

As shown in Table 1, the net assets of the GET Fund increased by $243.8 million during the fiscal year ended June 30, 2013. Contributions to the GET Program during the year increased net assets by $52.4 million. Realized and unrealized gains and losses decreased net assets in the fixed income portfolio by $(24.5) million and increased the equity portfolio by $172.1 million. The remaining increase was a result of net investment income reinvested within the funds.

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

- Liquid assets decreased by $(5.2) million. This cash balance represents less than 5 percent of total invested balances. Initially, net investment income received from all asset classes and net contributions are reinvested in money market funds. Investments in longer term securities are made as the cash becomes available and market opportunities exist. These balances fluctuate within policy targets as asset allocation decisions are made with accumulated cash to longer term investments.
- Fixed income investments increased by $77.4 million. Net realized and unrealized losses decreased this asset class by $(24.5) million. Approximately half the fixed income portfolio is comprised of the Treasury Inflation Protection Securities (TIPS) which returned (5.3) percent during the current fiscal year. Other fixed income securities returned 1.2 percent. TIPS rallied over the last three years due to expectations of inflation increases. During the current fiscal year, a correction in the TIPS market occurred as expectations of high inflation were curbed. In addition, bond yields increased causing values to decline. GET rebalanced during the year ended June 30, 2013, and $27.5 million was transferred to fixed income from equity securities. The remaining increase was due to reinvestment of net investment income within the fixed income portfolio and net contributions received from GET participants.
- Equity investments increased by $181.1 million. During the current fiscal year the portfolio was rebalanced and $(27.5) million was transferred to the fixed income portfolio. Net realized and unrealized gains and losses increased equity balances by $172.1 million. The equity portfolio returned 17.7 percent during the current fiscal year which resulted in the increase in value. The remaining increase was the result of net investment income reinvested in equity securities.
- Net receivables and payables increased substantially due to securities lending activities. GET had no securities lending activity as of the fiscal year end June 30, 2012. Lending activities were resumed during the current fiscal year with collateral held reported as a receivable and cash received as collateral reported as a payable at the current year end resulting in increases in both reported balances.

As shown in Table 2, net investment income increased by $189.4 million during the fiscal year ended June 30, 2013. The current year return for the GET Program was 9.6 percent compared to the prior year return of 0.1 percent. While fixed income returns decreased over the prior year, equity returns increased from (6.6) percent for the year ended June 30, 2012, to 17.8 percent for the current fiscal year end. The increase in realized and unrealized gains and losses of $179.9 million contributed to the increase in returns over the prior year. Interest, dividend, and other investment income increased by $ 10.1 million due to the increased fixed income balances paying higher yields than equity securities.

Net contributions from GET decreased by $(70.7) million. Increases in tuition costs resulted in less funding for additional investment purchases. Increased tuition was the result of participants using more units to purchase tuition.

The WSIB staff rebalances the GET Funds' investments between asset classes as markets move 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

TABLE 1: SUMMARIZED NET ASSETS	2013	2012	DOLLAR CHANGE	PERCENT CHANGE
Liquid Assets	$61,842,617	$67,016,931	$(5,174,314)	-7.7%
Fixed Income Investments	837,423,303	760,008,938	77,414,365	10.2%
Equity Investments	1,375,308,894	1,194,246,317	181,062,577	15.2%
Total Investments	**2,274,574,814**	**2,021,272,186**	**253,302,628**	**12.5%**
Collateral Held Under Securities Lending Agreements	60,403,466	-	60,403,466	NA
Investment Earnings Receivable	6,171,576	5,590,099	581,477	10.4%
Total Assets	**2,341,149,856**	**2,026,862,285**	**314,287,571**	**15.5%**
Investment Liabilities	70,610,897	164,845	70,446,052	42734.7%
Net Assets	**$2,270,538,959**	**$2,026,697,440**	**$243,841,519**	**12.0%**

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 GET investments.

TABLE 2: SUMMARIZED CHANGES IN NET ASSETS	2013	2012	DOLLAR CHANGE	PERCENT CHANGE
Net Investment Income				
Interest, Dividends and Other Investment Income	$45,140,987	$34,976,036	$10,164,951	29.1%
Net Capital Gains	7,122,965	168,331,169	(161,208,204)	(95.8%)
Unrealized Gains (Losses)	140,411,293	(200,678,254)	341,089,547	(170.0%)
Less: Fees and Expenses	**(1,194,843)**	**(591,622)**	**603,221**	**102.0%**
Net Investment Income	**191,480,402**	**2,037,329**	**189,443,073**	**9298.6%**
Net Amount Contributed	52,361,117	123,061,421	(70,700,304)	(57.5%)
Net Assets - Beginning	**2,026,697,440**	**1,901,598,690**	**125,098,750**	**6.6%**
Net Assets - Ending	**$2,270,538,959**	**$2,026,697,440**	**$243,841,519**	**12.0%**

GET Fund Statement of Net Assets - June 30, 2013

See notes to financial statements

			Percent
ASSETS			
Investments:			
Liquid Assets	$	61,842,617	2.7%
Fixed Income			
Treasury Inflation Protected Securities		411,960,714	18.1%
Commingled Intermediate Credit		425,462,589	18.7%
Total Fixed Income		837,423,303	36.8%
Equity			
Corporate Stock - Domestic		654,322,596	28.8%
Corporate Stock - Foreign (Non USD Denominated)		693,555,347	30.5%
Corporate Stock - Foreign (USD Denominated)		27,430,951	1.2%
Total Equity		1,375,308,894	60.5%
Total Investments		2,274,574,814	100.0%
Collateral Held Under Securities Lending Agreements		60,403,466	
Pending Trades and Other Investment Receivables		6,171,576	
Total Assets		2,341,149,856	
LIABILITIES			
Pending Trades and Other Payables		10,207,431	
Obligations Under Securities Lending Agreements		60,403,466	
Total Liabilities		70,610,897	
NET ASSETS	$	2,270,538,959	

GET Fund Statement of Changes in Net Assets - Year ended June 30, 2013

See notes to financial statements

Net Investment Income		
Investment Income		
Interest, Dividends and Other Investment Income	$	44,095,204
Securities Lending Income		1,045,783
Realized Capital Gains		10,560,208
Realized Capital Losses		(3,437,243)
Unrealized Gains		140,411,293
Less:		
Securities Lending Rebates and Fees		(351,566)
Investment Expenses		(530,578)
WSIB Operating Expenses		(312,699)
Net Investment Income		191,480,402
Net Amount Contributed		52,361,117
Increase in Net Assets		243,841,519
Net Assets - June 30, 2012		2,026,697,440
Net Assets - June 30, 2013	$	2,270,538,959

Note 1: Description of Fund and Significant Accounting Policies

Description of Fund

GET consists of contributions from participants planning on attending advanced education programs in Washington State. 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 GET as managed by the WSIB. The WSIB has exclusive control of the investments held for GET. The financial statements do not present the financial position and results of operations of the WSIB or GET.

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 Assets.

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 GET has the ability to spend, pledge, or sell the collateral without borrower default, is included in the Statement of Net Assets. 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 Assets does not include detailed holdings of securities lending collateral by investment classification.

Contributions

Contributions are recorded when received.

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 GET'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, GET will not be able to recover the value of its deposits, investments, or collateral securities. As of June 30, 2013, 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 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. GET 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 GET investments as of June 30, 2013. The schedule displays various asset classes held by maturity in years, effective durations, and credit ratings.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. GET'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, 2013, 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. GET 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, 2013.

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. GET 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 GET 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, 2013, was approximately $58.8 million. The securities on loan remain in the Statement of Net Assets in their respective categories. At June 30, 2013, cash collateral received totaling $60.4 million is reported as a securities lending obligation, and the fair value of the re-invested cash collateral totaling $60.4 is reported as security lending collateral in the Statement of Net Assets. Securities received as collateral where GET 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 Assets.

Fixed income and equity securities were loaned and collateralized by the GET Funds' agent with cash and U.S. Government or U.S. Agency Securities (exclusive of mortgage backed securities and 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, 2013.

Cash and Cash Equivalents	$13,892,797
Commercial Paper	10,969,269
Repurchase Agreements	33,825,941
US Treasuries	1,532,281
Miscellaneous	1,715,458
Total Collateral Held	**$61,935,746**

During fiscal year 2013, securities lending transactions could be terminated on demand by either GET or the borrower. As of June 30, 2013, the collateral held had an average duration of 22.42 days and an average weighted final maturity of 57.44 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 2013, 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, GET incurred no losses during fiscal year 2013 resulting from a default by either the borrowers or the securities lending agents.

Note 5: Derivatives

GET 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, GET 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 Assets. As of June 30, 2013, the derivative instruments held by GET 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 GET 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 the risk that the counterparty will not pay and generally 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 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, 2013, the GET Funds had no outstanding forward currency contracts.

Inherent in the use of OTC derivatives, GET 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, 2013, GET had no open OTC derivatives and, accordingly no counterparty credit risk. Derivatives which are exchange traded are not subject to credit risk. The maximum loss that would be recognized at June 30, 2013, if all counterparties fail to perform as contracted, was de minimis.

		Changes in Fair Value - Included in Investment Income	Fair Value at June 30, 2013 - Investment Derivative	
	Classification	**Amount**	**Amount**	**Notional**
FUTURES CONTRACTS:				
Equity Index Futures	Investment	$ 1,703,331	$ (176,763)	6,400

Note 6: Summary of Investment Policy

Per RCW 43.33A.030, trusteeship of GET 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 4.5 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 global equity will be to passively track the broad global stock market as defined by the Dow Jones Global Stock Market Index; and
- 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 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.
- Diversify the assets at a prudent level to moderate fluctuations in the fair value of the program.

Permissible Investments

- Global Equity
- 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
- Derivatives

Asset Allocation

The asset allocation strategy for GET is as follows:

Asset Class	Target	Range
Global Equities	60%	55%-65%
Fixed Income	20%	16%-24%
Inflation Indexed Bonds	20%	16%-24%
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	$ 411,960,714	$ 10,030,951	$ 157,553,974	$ 43,420,563	$ 200,955,226	7.37	AAA
Commingled Intermediate Credit	425,462,589	21,153,103	207,354,489	196,954,997	-	4.57	Schedule 2
	837,423,303	$ 31,184,054	$ 364,908,463	$ 240,375,560	$ 200,955,226	5.95	
Investments Not Required to be Categorized							
Corporate Stock - Domestic	654,322,596						
Corporate Stock - Foreign (Non USD Denominated)	693,555,347						
Corporate Stock - Foreign (USD Denominated)	27,430,951						
Liquid Assets	61,842,617						
Total Investments Not Categorized	1,437,151,511						
Total Investments	$ 2,274,574,814						

Schedule 2: Additional Credit Rating Disclosures

Commingled Intermediate Credit

Moody's Equivalent Credit Rating	Total Fair Value
Aaa	$ 32,076,778
Aa1	3,295,178
Aa2	6,796,132
Aa3	55,049,620
A1	28,337,422
A2	53,606,118
A3	42,774,596
Baa1	57,814,434
Baa2	83,159,683
Baa3 and below	62,552,628
Total Fair Value	$ 425,462,589

Schedule 3: Foreign Currency Exposure by Country

	Investment Type In U.S. Dollar Equivalent			
Foreign Currency Denomination	Currency	Corporate Stock	Total	Percent of Total GET Funds Investments
Australia-Dollar	$ 163,152	$ 39,330,259	$ 39,493,411	1.7%
Brazil-Real	72,533	16,385,794	16,458,327	0.7%
Canada-Dollar	114,370	52,145,481	52,259,851	2.3%
Chili-Official rate	31,683	2,796,830	2,828,513	0.1%
Columbia-Peso	97,475	1,391,613	1,489,088	0.1%
Denmark-Krone	793	5,997,785	5,998,578	0.3%
E.M.U.-Euro	423,728	136,137,854	136,561,582	6.0%
Hong Kong-Dollar	232,419	42,656,837	42,889,256	1.9%
India - Rupee	249,185	10,487,521	10,736,706	0.5%
Indonesia-Rupiah	156,568	5,062,662	5,219,230	0.2%
Israel-Shekel	68,847	2,892,721	2,961,568	0.1%
Japan-Yen	1,000,399	115,527,247	116,527,646	5.1%
Malaysia-Ringgit	205,353	6,476,558	6,681,911	0.3%
Mexico-Peso	11,202	7,631,631	7,642,833	0.3%
Norway-Krone	209,979	4,811,889	5,021,868	0.2%
Philippines-Peso	104,262	1,895,745	2,000,007	0.1%
Poland-Zloty	22,495	2,334,323	2,356,818	0.1%
Singapore-Dollar	184,658	9,086,739	9,271,397	0.4%
South Africa-Rand	323,667	11,206,011	11,529,678	0.5%
South Korea-Won	153,687	22,909,550	23,063,237	1.0%
Sweden-Krona	538,118	15,542,539	16,080,657	0.7%
Switzerland-Franc	4,290	42,847,764	42,852,054	1.9%
Taiwan-Dollar	586,123	21,023,958	21,610,081	1.0%
Thailand-Baht	88,943	4,491,982	4,580,925	0.2%
Turkey-Lira	101,262	3,063,631	3,164,893	0.1%
United Kingdom - Pound	537,083	107,896,037	108,433,120	4.8%
Other - Miscellaneous	63,794	1,524,386	1,588,180	0.1%
	5,746,068	693,555,347	699,301,415	30.7%
Foreign Investments Denominated in U.S. Dollars	-	27,430,951	27,430,951	1.2%
	$ 5,746,068	$ 720,986,298	$ 726,732,366	32.0%

petersonsullivan LLP

Certified Public Accountants
& Advisors

INDEPENDENT AUDITORS' REPORT

To the Members of the Washington State Investment Board

Olympia, Washington

We have audited the accompanying financial statements of the Developmental Disabilities Endowment Fund of the State of Washington as managed by the Washington State Investment Board ("the Developmental Disabilities Endowment Fund"), which comprise the statement of net assets as of June 30, 2013, and the related statement of changes in net assets 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; 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.

Auditor's 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. 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Developmental Disabilities Endowment Fund as of June 30, 2013, and the changes in net assets for the year then ended in accordance with accounting principles generally accepted in the United States.

Management Discussion and Analysis

Accounting principles generally accepted in the United States require that the management's discussion and analysis preceding the financial statements be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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, 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 financial statements, and other knowledge we obtained during our audit of the 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The introduction and investments sections of the annual report are presented for purposes of additional analysis and are not a required part of the financial statements. The introduction and investments sections of the annual report have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

/S/ PETERSON SULLIVAN LLP

October 16, 2013

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 Assets provides information on the types of investments, assets, and liabilities of the DDEF as of June 30, 2013. This information is summarized in Table 1. Table 1 also compares the asset, liability, and net asset balances at June 30, 2013, with those at June 30, 2012. The Statement of Changes in Net Assets provides information on investment performance and other increases and decreases in the net assets of the DDEF for the year ended June 30, 2013. This information is summarized in Table 2. Table 2 also compares the financial activities of DDEF for the year ended June 30, 2013, with those of the year ended June 30, 2012. 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.

As shown in Table 1, the net assets of the DDEF increased by $5.1 million during the fiscal year ended June 30, 2013. The increase in net assets was primarily due to the contributions to the private trust fund of $2.0 million and realized and unrealized gains of $2.5 million. The DDEF state trust fund returned 2.1 percent during the current fiscal year and the DDEF private trust fund returned 12.2 percent during the same time period. The remaining net asset value increase was a result of net investment earnings reinvested within the DDEF funds.

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

- Money market funds increased by $ 0.1 million. Cash balances represents less than 1 percent of total investments and are within policy targets. 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.
- Fixed income investments increased by $0.2 million. Net income reinvested in fixed income securities totaled $0.1 million. Transfers from the equity portfolio increased the balances by $0.3 million, while investment losses decreased the portfolio by $(0.2) million. Approximately half the fixed income portfolio is comprised of the Treasury Inflation Protection Securities (TIPS), which returned (3.8) percent during the current fiscal year. Other fixed income securities returned 1.2 percent during the same time period. TIPS rallied over the last three years due to expected inflation increases. During the current fiscal year, a correction occurred as the expectations of high inflation were curbed.
- Balanced mutual funds received the private trust fund contributions of $2.0 million to invest. Realized and unrealized gains increased the portfolio by $2.3 million. Balanced mutual funds returned 12.2 percent during the current fiscal year with significant positive equity returns contributing to the majority of the gain. The remaining increase was due to reinvestment of income within the fund.
- Equity investments had a small increase during the current fiscal year. Transfers to other asset classes reduced balances by $(0.3) million with offsetting realized and unrealized gains during the current fiscal year. The equity return within the DDEF was 18.0 percent which resulted in a value increase of approximately $0.3 million. The remaining increase was the result of income reinvested in equity securities.

TABLE 1: SUMMARIZED NET ASSETS	2013	2012	DOLLAR CHANGE	PERCENT CHANGE
Money Market Funds	$67,784	$17,606	$50,178	285.0%
Fixed Income Investments	8,728,755	8,567,949	160,806	1.9%
Balanced Funds	27,840,132	22,940,580	4,899,552	21.4%
Equity Investments	1,842,958	1,832,241	10,717	0.6%
Total Investments	**38,479,629**	**33,358,376**	**5,121,253**	**15.4%**
Earnings Receivable	24,001	23,549	452	1.9%
Total Assets	**38,503,630**	**33,381,925**	**5,121,705**	**15.3%**
Investment Liabilities	113	138	(25)	-18.1%
Net Assets	**$38,503,517**	**$33,381,787**	**$5,121,730**	**15.3%**

As shown in Table 2, net investment income increased by $1.3 million from the prior year almost entirely due to increases in the market value of the underlying investments (realized and unrealized gains and losses). The total DDEF return for fiscal year 2013 was 9.4 percent, which was a substantial increase from the prior year return of 6.1 percent. Equity and balanced fund investments experienced a significant increase in returns over the prior year as the stock markets rallied during the current fiscal year. Fixed income returns were substantially lower due to negative returns within the TIPS portfolio as discussed previously. Contributions decreased over the prior year as the private trust fund received less funds from participants during the current fiscal year.

The fair value of DDEF net assets 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 DDEF assets. WSIB staff rebalances the DDEF's assets between asset classes as markets move, pursuant to WSIB policy.

TABLE 2: SUMMARIZED CHANGES IN NET ASSETS	2013	2012	DOLLAR CHANGE
Net Investment Income			
Investment Income	$598,663	$525,714	$72,949
Net Capital Gains	49,290	174,245	(124,955)
Unrealized Gains	2,468,897	1,159,330	1,309,567
Less:			
Investment Expenses	(3,213)	(4,123)	(910)
Net Investment Income	**3,113,637**	**1,855,166**	**1,258,471**
Net Amount Contributed	2,008,093	2,936,007	(927,914)
Net Assets - Beginning	**33,381,787**	**28,590,614**	**4,791,173**
Net Assets - Ending	**$38,503,517**	**$33,381,787**	**$5,121,730**

DDEF Statement of Net Assets - June 30, 2013

See notes to financial statements

	Developmental Disabilities Endowment Trust Fund State	Developmental Disabilities Endowment Trust Fund Private	Total	Percent of Total
ASSETS				
Investments:				
LIQUIDITY:				
Money Market Funds	$ 57,784	$ 10,000	$ 67,784	0.2%
FIXED INCOME INVESTMENTS:				
Treasury Inflation Protected Securities	4,409,682	-	4,409,682	11.5%
Commingled Intermediate Credit	4,319,073	-	4,319,073	11.2%
BALANCED FUNDS:				
Balanced Mutual Funds - Domestic	-	27,840,132	27,840,132	72.3%
EQUITY INVESTMENTS:				
Commingled Equity Index Funds - Domestic	992,279	-	992,279	2.6%
Commingled Equity Index Funds - Foreign	850,679	-	850,679	2.2%
Total Investments	10,629,497	27,850,132	38,479,629	100.0%
Investment Earnings Receivable	24,001	-	24,001	
Total Assets	10,653,498	27,850,132	38,503,630	
LIABILITIES				
Accrued Payables	113	-	113	
NET ASSETS	**$ 10,653,385**	**$ 27,850,132**	**$ 38,503,517**	

DDEF Statement of Changes in Net Assets - Year Ended June 30, 2013

See notes to financial statement

	Developmental Disabilities Endowment Trust Fund State	Developmental Disabilities Endowment Trust Fund Private	Total
Net Investment Income			
Investment Income:			
Interest, Dividends and Other Investment Income	$ 53,326	$ 545,337	$ 598,663
Realized Capital Gains	50,516	-	50,516
Realized Capital Losses	(1,226)	-	(1,226)
Unrealized Gains	120,411	2,348,486	2,468,897
Less:			
Investment Expenses	(849)	(777)	(1,626)
WSIB Operating Expenses	(1,587)	-	(1,587)
Net Investment Income	220,591	2,893,046	3,113,637
Net Amount Contributed	1,587	2,006,506	2,008,093
Increase in Net Assets	222,178	4,899,552	5,121,730
Net Assets, June 30, 2012	10,431,207	22,950,580	33,381,787
Net Assets, June 30, 2013	$ 10,653,385	$ 27,850,132	$ 38,503,517

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 individual participants of 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 of all money 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 Assets.

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

DDEF reports collateral received under securities lending agreements where 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 Assets does not include detailed holdings of securities lending collateral by investment classification.

Contributions and Withdrawals

Contributions and withdrawals aare 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 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. 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, 2013, 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. 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 DDEF investments as of June 30, 2013. The schedule displays various asset classes held by maturity in years, effective durations, and credit ratings.

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, 2013, 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 DDEF Funds fair value at the time of purchase, nor shall its fair value exceed 6 percent of DDEF Funds' fair value at any time. There was no concentration of credit risk that exceeded these limits as of June 30, 2013.

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. DDEF has no formal policy to limit foreign currency risk. The only security held by the DDEF with foreign currency exposure at June 30, 2013, consists of $850,679 invested in an international commingled equity index fund.

Note 4. Securities Lending

Washington State law and WSIB policy permit 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 Assets 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 Assets. Securities received as collateral where 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 Assets. There were no assets on loan at June 30, 2013, and no collateral held related to securities lending transactions in DDEF Funds.

Fixed income securities were loaned and collateralized by the DDEF's agent with cash and U.S. Government or U.S. Agency Securities (exclusive of mortgage backed securities and 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.

During fiscal year 2013, securities lending transactions could be terminated on demand by either the DDEF Funds or the borrower. 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 2013, 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 DDEF Funds incurred no losses during fiscal year 2013, resulting from a default by either the borrowers or the securities lending agents.

Note 5. Summary of Investment Policy

Under RCW 43.33A.030, trusteeship of 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 Life Opportunities Trust Governing Board and the participants. Based on this requirement, the order of the objectives shall be:

- Maximize return at a prudent level of risk based on identified investment time horizons;
- Ensure sufficient assets are available to fund the expected needs; and
- 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 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."; and
- Diversify the assets at a prudent level to moderate fluctuations in the fair value of the program.

Permissible Investments

Fixed Income: The fixed income portfolio will be limited to the Bond Market Fund (WSIB Policy 2.14.200). The Treasury Inflation Protection Securities portfolio will be invested in U.S. Inflation Indexed Bonds.
U.S. Equity: The U.S. equity portfolio will be invested in a passive commingled fund managed to track a U.S. broad market index, currently the MSCI U.S. Investable Market Index (MSCI U.S. IMI)
Balanced Mutual Funds: DDEF – Private will invest in the Vanguard Balanced Index – Institutional Share's mutual fund.
Non-US Equity: The international equity portfolio will be invested in a passive commingled fund managed to track a broad non-U.S. market index, currently the MSCI All Country ex U.S. Investable Market Index (MSCI ACWI ex U.S. IMI)
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 plus a set spending rate.

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

State Funds	Target	Range
Cash	0%	0-5%
Fixed Income	41%	38-44%
U.S. Equity	9%	6-12%
International Equity	8%	5-11%
TIPS	42%	39-45%

Private Funds	Target
Cash	$10,000
Fixed Income	40%
Equity	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
Treasury Inflation Protected Securities	$ 4,409,682	$ -	$ -	$ 4,409,682	$ -	6.18	AAA
Commingled Intermediate Credit	4,319,073	214,735	2,104,954	1,999,384	-	4.57	Schedule 2
	8,728,755	$ 214,735	$ 2,104,954	$ 6,409,066	$ -		
Investments Not Required to be Categorized							
Commingled Equity Index Funds - Domestic	992,279						
Commingled Equity Index Funds - Foreign	850,679						
Commingled Balanced Trust	27,840,132						
Money Market Funds	67,784						
Total Investments Not Categorized	29,750,874						
Total Investments	$ 38,479,629						

Schedule 2: Additional Credit Rating Disclosures

Commingled Intermediate Credit

Moody's Equivalent Credit Rating	Market Value
Aaa	$ 325,627
Aa1	33,451
Aa2	68,991
Aa3	558,835
A1	287,666
A2	544,181
A3	434,225
Baa1	586,902
Baa2	844,193
Baa3 and below	635,002
Total Fair Value	$ 4,319,073

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