WASHINGTON STATE INVESTMENT BOARD

THIRTY-FIFTH ANNUAL REPORT

2016

INTRODUCTION

LETTER OF TRANSMITTAL

In today's investment world, low growth rates, low interest rates and high levels of uncertainty are the new norm. Extraordinary economic circumstances have become ordinary. In the U.S., we expected the Fed to inch upward with interest rates, but slow and erratic growth has caused false starts. In at least three mainstream markets around the world -- Germany, Japan and Switzerland -- interest rates are in negative territory, so lenders essentially are paying borrowers in order to stimulate a flagging economy. For economists, that's like reversing gravitational pull.

What does all this mean for large investors like the WSIB? More importantly, what does it mean for retirement plan beneficiaries? What does it mean for our stakeholders like the Department of Labor & Industries, the Developmental Disabilities Endowment Fund or the Permanent Funds for colleges and universities? For all of us, investing is a process that demands predictive planning in an environment that increasingly resists accurate predictions.

Traditionally, our best answer has been diversification – often billed as "the only free lunch" available to investors. For decades, our industry climbed a ladder of increasing diversification in order to help investors capture value while cushioning against unpredictability. The WSIB has been at the forefront of this diversification quest. Before it was mainstream, we invested seriously in global markets and made large commitments to private market opportunities that demand closer due diligence and careful scrutiny. The combination of broader-than-average diversification and diligent research has allowed the WSIB to generate above-average returns at prudent levels of risk.

But diversification alone is not the complete answer. The idea of simply adding more variety to a portfolio has been commoditized by technology and exploited by marketers anxious to sell the next shiny object. At some point, it makes sense to stop adding more ingredients to the soup. Make no mistake -- we still need plenty of those ingredients, but today's challenge involves paying more attention to the quality, quantity, origins and cost of those ingredients. As investors, we need to blend diversification with a discriminating eye toward how value is generated and how risk is mitigated.

In the future, our mission for maximizing returns at a prudent level of risk will become increasingly about the depth of our due diligence and the breadth of our governance efforts. Our investment approach will continue to advocate a long-term discipline, which means we will resist reactionary behavior as turbulent markets and geo-political movements create forceful noise. We will engage closely with investment partners and stakeholders, to develop investment plans that fulfill specific outcomes amid an unpredictable environment. We will engage with the companies in which we invest by deliberately voting corporate proxies on key issues such as climate risks, executive compensation and board leadership. We will continually challenge ourselves to evolve as responsible, focused stewards of our public assets.

Our staff at the WSIB is proud and committed to what we have accomplished, yet we understand the risk of complacency in times of change. Our retirement funds rank among the top 10 in the U.S. for funding status, yet we know that today's market conditions will continue to test our mettle. We have seen that everything in the investment universe is subject to change. Thankfully, our mission – our sole focus on serving the financial needs of beneficiaries – is not subject to change. It's the basis for how to respond to change.

Sincerely,

Theresa Whitmarsh, Executive Director

MESSAGE FROM THE CHAIR

The Washington State Investment Board (WSIB) serves as a capable and disciplined asset manager for our state's retirement plan system. For 35 years, it has generated strong long-term investment returns through an accountable organization that helps retirement plan beneficiaries and other stakeholders achieve a healthy financial future. By investing globally and by implementing public and private market strategies, the WSIB has created a well-respected, world-class asset management organization that produces exceptional long-term results at prudent levels of risk.

I have been privileged to chair the 15-member, independent Board of Trustees that acts as the fiduciary on behalf of more than 482,000 members, retirees and beneficiaries in the state's retirement plan system. Our Board oversees the WSIB and benefits from the involvement of elected officials, state agency leaders, independent investment professionals, and representatives of beneficiary groups such as teachers, firefighters and law enforcement. This balance of appointed, professional and elected membership provides our Board with a constructive diversity of views and helps uphold our duties as an engaged overseer.

During the past four years, I also headed the Department of Retirement Services, which works closely with WSIB to administer our retirement plans and guides individual beneficiaries to take the necessary steps toward a secure future. I am exceedingly proud of the collaboration that occurs between the customer-facing work of DRS and the market-facing investment expertise of the WSIB. It's a win-win relationship that makes our retirement plan system one of the top 10 in the U.S. for long-term stability and funding.

Our retirement system generates enormous value for our state, its employees and its public stakeholders. The retirement benefits earned by Washington's public employees result in approximately $3.8 billion in payments each year, or about $316 million per month. The WSIB's investment earnings pay for 2.69 million workers covered under the state Department of Labor & Industries' workers' compensation program. Similarly, these investment returns generate vital benefits for the families who rely on the $53 million Developmental Disabilities Endowment Fund and the educational systems that rely on the $1.0 billion Permanent Funds for supporting schools, colleges and universities.

As of the end of this fiscal year (FY), the WSIB is managing $109 billion in total assets, which includes the $82.5 billion Commingled Trust Fund (CTF) portfolio for the state's retirement plans systems. The rate of return for the CTF since inception is 8.53 percent. Three-, five-, and 10-year return rates are 8.03 percent, 7.51 percent, and 6.18 percent, respectively. In an environment where many state retirement plans are under pressure for disappointing investment performance and waning funding levels, these results are comparatively very strong and help position the WSIB as one of the top performing pension systems in the nation.

Our Board will face some significant challenges in the future, including the need to remain diligent and fully educated in the face of a rapidly changing investment landscape. We will need to provide focused leadership and clear vision in full support of the WSIB's financial mission. And we will need to maintain transparency and encourage open dialogue when inevitably facing any of the complex issues that come with acting as public fiduciary. I am confident in our Board's ability to admirably fulfill these roles long into the future.

My thanks to our beneficiaries for their trust and support, and to our Board and staff at the WSIB for the personal and professional support that allows us to create a valuable investment program. We are pleased to present for your review the WSIB's Annual Report for the fiscal year ending June 30, 2016.

Sincerely,
Marcie Frost, Chair

BOARD MEMBERS AND COMMITTEES

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

Administrative Committee

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

Audit Committee

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

Private Markets Committee

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

Public Markets Committee

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

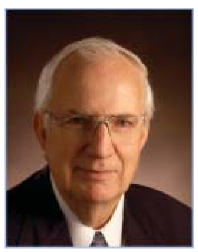
Treasurer
James L. McIntire

Marcie Frost
Chair

Joel Sacks

Kelly Fox
Vice-Chair

Judy Kuschel



George Masten

Stephen Miller

Arlista D. Holman

Representative
Timm Ormsby

Senator
Mike Hewitt

Robert S.
Nakahara, C.P.A.

Jeffrey T. Seely

David
Nierenberg

William A.
Longbrake

Richard
Muhlebach

EXECUTIVE MANAGEMENT AND CONSULTANTS

Theresa J. Whitmarsh

Executive Director

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 (CIO)

The CIO oversees the Investment Division, which is comprised of investment professionals responsible for each of the major asset classes including public equity, private equity, real estate, fixed income and tangible assets. Also under direction of the CIO, a senior investment officer develops asset allocation and risk budgeting strategies. The division deploys both internal and external investment management strategies.

Ian Cameron

Chief Operating Officer/Chief Financial Officer (COO/CFO)

The COO/CFO oversees the Operations Division, which provides functional services enabling investment transactions, accounting, trade settlement, cash management, private market funding, cash and stock distributions, foreign and domestic tax matters and the investment compliance process. This division also provides agency-wide risk management, information systems management, human resources and administrative services.

Chris Phillips

Institutional Relations Director

The Institutional Relations Director is responsible for communications, public affairs and client services essential to the agency's role as public fiduciary and institutional asset manager. These services include performance reporting, public relations, media inquiries, corporate governance, legislative relations and stakeholder relations.

Tammy Wood

Human Resources Director

The Human Resources Director is responsible for facilitating the hiring and retention of skilled employees and for positioning the agency as a successful destination workplace that contributes to the organization's mission. Key areas of responsibility include professional coaching and development, talent acquisition, workplace and career planning, and management of all human resource functions, including the application of Civil Service Rules and state and federal employment laws.

Investment Accounting Data System

Broadridge Financial Solutions

Master Custodian Bank

State Street Bank

Insurance Portfolio Consultant

Conning Asset Management

Private Equity, Real Estate, & Tangibles Consultant

Hamilton Lane Advisors LLC

Courtland Partners, Ltd.

Consultants and Service Providers

Altius Associates
Aon Consulting
Callan Associates Inc.
CliftonLarsonAllen LLP
Cutter Associates, Inc.
Duff & Phelps LLC
EFL Associates of Colorado, Inc.
Eide Bailly LLP
Intrinium Networks/IT Security
InvestTech Systems Consulting, Inc.
Kamakura Corporation
KPM & Associates
LP Capital Advisors
Macias Gini & O'Connell LLP
Meketa Investment Group, Inc.
Mercer Investment Consulting, Inc.
Moss Adams LLP
MSCI, Inc
Myers and Stauffer LC
Northfield Information Services
Pension Consulting Alliance, Inc.
R.V. Kuhns & Associates Inc.
Real Asset Portfolio Management LLC
TorreyCove Capital Partners
Tunlaw Partners LLC

CTF PARTNERS & FUND MANAGERS

Private Equity Partners

Accel Partners
Actis
Advent International
Affinity Equity Partners
Alta Communications
Ampersand Ventures
Apax Partners
Apex Investment Partners
Austin Ventures
Avenue Capital Group
Banc Funds
Battery Ventures
BC Partners
Blackstone Group
Boston Ventures
Bridgepoint Capital
Butler Capital Partners
Canaan Partners
Capital Resource Partners
CDH Investments
Charterhouse Capital Partners
Cinven Ltd.
Clayton Dubilier & Rice
Code, Hennessy & Simmons
Collinson, Howe and Lennox

Cypress Group
Denham Capital
Doughty Hanson & Co.
Edgewater Funds
EIG Global Energy Partners
El Dorado Ventures
Elevation Partners
Endeavour Capital
Essex Woodlands
Evercore Capital Partners
First Reserve Corp.
Evergreen Pacific Partners
Fisher Lynch Capital
Fortress Investment Group
FountainVest Partners
Francisco Partners
Frazier & Co.
Friedman Fleischer & Lowe
GGV Capital
GI Partners
Gilbert Global Equity Partners
Great Hill Partners
Gryphon Investors
GTCR
H.I.G. Ventures

HarbourVest Partners
Healthcare Ventures
Hellman & Friedman
PAG Asia Capital
Insight Venture Partners
Intersouth Partners
JMI Equity
Kohlberg Kravis Roberts & Co.
KSL Capital Partners
Leonard Green & Partners
M/C Venture Partners
Madison Dearborn Partners
MatlinPatterson Global Advisors
Menlo Ventures
Mobius Venture Capital
Morgan Stanley Venture Partners
New Enterprise Associates
Nordic Capital
Oaktree Capital Mgmt.
Oak Investment Partners
OVP Venture Partners
Palamon Capital Partners
Permira
Polaris Venture Partners
Providence Equity Partners

Roark Capital Group
Rhone Capital
Silver Lake Partners
Southern Cross Group
Spark Mgmt. Partners
Sprout Group
TA Associates
Tailwind Capital Partners
Technology Crossover Ventures
The Riverside Company
Three Arch Partners
TowerBrook Capital Partners
TPG Partners
Trident Capital Partners
Triton Partners
U.S. Venture Partners
Union Square Ventures
Unitas Capital
VantagePoint Venture Partners
Vestar Capital Partners
Vision Capital
Vivo Ventures
Warburg Pincus
Welsh Carson Anderson & Stowe
Worldview Technology Partners

CTF PARTNERS & FUND MANAGERS

Real Estate Partners

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

Tangibles Partners

Agriculture Capital Management
Alinda Capital Partners
EnerVest, Ltd
Global Infrastructure Partners
Highstar Capital
International Farming Corporation
Laguna Bay Pastoral Company
Lime Rock Resource
Orion Resource Partners
Prostar Capital
Reservoir Resource Partners
Sheridan Production Partners
Stonepeak Advisors
UBS Farmland Investors
Wood Creek Capital
Silver Creek Advisory Partners
Warwick Mangement Company

Overlay Manager

State Street Global Advisors

Public Equity Fund Managers

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

CORPORATE GOVERNANCE

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

Effective corporate governance relies on a system of checks and balances to foster transparency, responsibility, accountability and market integrity. A growing body of empirical research points to the impact of responsible governance practices, demonstrating that companies with strong corporate governance tend to have lower risk of fraud and higher returns.

For the most part, 2016 was a relatively calm year in the corporate board rooms of most companies. The number of directors who failed to receive majority support continued to decline, and shareholders once again overwhelmingly supported executive compensation programs at public companies. The relatively high level of support for corporate pay plans is partially the result of a greater effort by corporate boards and management to engage with shareholders regarding compensation concerns. Companies that engaged successfully managed to greatly improve their voting outcomes compared with the previous year.

For companies that received 70 percent or less shareholder approval of their compensation plans, pay-for-performance and outsized pay to CEOs were the most common reasons for negative votes. Of the 2,180 say-on-pay proposals appearing on corporate ballots between July 1, 2015 and June 30, 2016, the WSIB voted “no” to 413 plans.

Proxy access was again the big story for the 2016 proxy voting season. For the second year in a row, governance and shareholder rights issues were the most frequently submitted proposals, largely due to the yet again unprecedented number of proxy access shareholder proposals submitted. In 2016, 81 shareholder proposals were seeking to nominate candidates for board seats. In total, proxy access proposals averaged 51.3 percent support, with 37 of the proposals receiving majority shareholder support.

Shareholder proposals requesting increased disclosure on how companies are planning to mitigate the risks associated with climate change and attendant regulations received record levels of support in 2016. Average support for the proposals jumped from 17.5 percent in 2015 to 32 percent in 2016.

The WSIB supported 21 of the 44 climate-related proposals. Of the 22 proposals asking companies to prepare sustainability reports, the WSIB voted in favor of 19 shareholder proposals.

The WSIB believes that in order to maximize investment returns we must maintain vigilant oversight over the management policies and practices of the companies in which we invest. As a long-term investor, the WSIB recognizes the risk of reactively selling its shares if it doesn’t like the way a company is performing in the near term. Therefore, active participation and input with these companies is often a more responsible, more effective remedy.

Proxy voting is a constructive means of influence and input for WSIB. Between July 1, 2015-June 30, 2016 the WSIB voted 3,083 proxy ballots. Proxy votes were cast on 33,420 individual proposals dealing primarily with election of directors, ratification of auditor, compensation plans, and shareholder proposals.

Of the total director votes during that time period, the WSIB withheld – or voted against – 1,623 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 this commitment, the WSIB voted to oppose:

- 16.4 percent of corporate compensation plans proposed
- 184 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 positively influence companies toward greater board accountability, genuine transparency and increased focus on long-term management and growth strategies.

ENTERPRISE RISK MANAGEMENT

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.

Managing the Assets		Managing the Organization			Safeguarding Our Reputation
Fiduciary Risk	Investment Risk	Strategic Risk	Governmental Environment Risk	Operational Risk	Reputation Risk

The ERM program provides a framework to evaluate and manage uncertainty and rare events. This framework includes defined key risks and associated risk appetite statements. The WSIB's enterprise-wide approach to risk management includes involvement of the Board, executive management, internal audit, operational, legal, and investment staff. Risks are seen as opportunities for success as well as failure. Risk tools have been established to anticipate potential causes of failure as well as challenge the key business assumptions.

Fiduciary Risk

The risk of acting for reasons other than the benefit of our constituents. As a fiduciary, the WSIB is required to manage investments with the highest standards of professional conduct for the exclusive benefit of fund beneficiaries. The Board operates within established investment policies designed to create well-balanced portfolios that weather the impacts of changing market conditions to meet or exceed the financial objectives of those we serve.

Investment Risk

These risks encompass all potential risks resulting from deployment of our assets into various investment strategies. They include market, liquidity, leverage/refinance, counterparty, currency, credit, sustainability, and interest rate risk. They may stem from changes in political, economic, demographic, behavioral, and technological factors. The WSIB seeks to manage the overall level of investment risk and uncertainty by diversifying across asset classes, investment managers, sectors, strategies, and geographies. The WSIB measures and assesses investment risk using quantitative risk systems to inform qualitative discussions.

Strategic Risk

Strategic risk refers to not making decisions necessary to meet the needs of our constituents. We manage strategic risk by having a strong Board governance, capable leadership, an effective strategic planning process, and appropriate resources.

Governmental Environment Risk

The WSIB operates within a government framework in a political environment that may not always align with our fiduciary duty or with the practices and priorities of the investment organizations with which the WSIB partners. Governmental environment risk arises from politics and business seeking to influence the mission of the agency. We anticipate and respond to changes in the governmental environment by monitoring legislative actions and engaging in stakeholder communication.

Operational Risk

Operational risk refers to losses that may arise from short comings or failures in processes, people, or systems. To foster organizational growth and change, management is committed to creating an environment where staff continues to learn and to implement operational best practices.

Reputation Risk

The WSIB must maintain its reputation in order to be a preferred partner in the marketplace, a trusted fiduciary, and a valued resource for the citizens of Washington. Failure in any of these risk categories will damage the WSIB's credibility and make it difficult to achieve its goals. The Board has adopted code of conduct and conflict of interest policies to ensure that its actions meet the most stringent standards. Ongoing education assists the Board in making informed decisions.

ANNUAL BUDGET

OBJECTS OF EXPENDITURE			
APPROPRIATED	Budget	Expenditures	Budget Variance
Salaries	$ 12,281,297	$ 11,543,925	$ 737,372
Benefits	2,992,208	2,974,434	17,774
Professional Service Contracts	296,000	155,023	140,977
Goods & Services	3,274,634	3,445,361	(170,727)
Travel	1,180,800	515,628	665,172
Equipment	60,000	44,154	15,846
Treasury Note	158,015		158,015
Subtotal Appropriated	$ 20,242,954	$ 18,678,525	$ 1,564,429 *

NON-APPROPRIATED	Budget	Expenditures	Budget Variance
Public Equity	$ 54,016,750	$ 54,754,980	$ (738,230)
Private Equity	239,869,140	191,186,215	48,682,925
Real Estate	51,025,680	32,279,597	18,746,083
Tangible Assets	16,237,132	26,387,313	(10,150,181)
Innovation Portfolio	4,070,520	424,449	3,646,071
General Consultants	1,015,000	396,890	618,110
Staff Consultants	1,195,000	681,222	513,778
Advisory Services Consultants	500,000		500,000
Legal Fees	1,430,000	1,487,204	(57,204)
Custodian Bank Fees	500,000	46,610	453,390
Securities Lending	7,111,437	6,975,929	135,508
Cash Management	4,092,578	2,625,506	1,467,072
Cash Overlay	900,000	670,677	229,323
Portfolio Verification - Shadow Investment Accounting System	1,402,500	1,098,102	304,398
Memberships	87,350	147,028	(59,678)
Research Services	2,549,000	2,716,063	(167,063)
Subtotal Non-Appropriated	386,002,087	321,877,785	64,124,302
TOTAL	$ 406,245,041	$ 340,556,310	$ 65,688,731

* The Balance will be carried forward to fiscal year 2017 since we are granted a biennial appropriation

INVESTMENTS

CTF INVESTMENT SUMMARY OF THE LAST YEAR

Strategic Asset Allocation

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

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

Highlights

- The Board modified the asset allocation for the Guaranteed Education Tuition (GET) program. During the 2015 legislative session, the Legislature passed the College Affordability Act, which lowered the cost of tuition at Washington's public colleges and universities. As a result of the College Affordability Act, the GET Committee made changes that increased the flexibility of the program for its participants, including establishing a 16-month refund period for participants. The asset allocation for the GET program was revised to provide flexibility during the refund period. The cash asset class target was increased from 0 percent to 5 percent to reflect higher liquidity requirements of the program during the refund period. Additionally, the allowable asset class ranges were increased for greater flexibility.
- The Board completed an asset allocation study for the higher education and public instruction Permanent Funds. An allocation to non-U.S. equities was established within the existing 30 percent exposure to public equities, and a 70 percent allocation to fixed income was maintained.

Retirement Funds

To more efficiently manage investments, reduce administrative costs, and minimize investment fees, the defined benefit retirement fund assets are pooled into the CTF. Over the past 10 years, the fund has grown from $53.8 billion to $82.5 billion including employer and employee contributions, plus net investment returns, less benefit payments and fund transfers (this does not include Plan 3 self-directed defined contribution funds). This year, the market value stated in the audited financials for the retirement fund is significantly different than the market value that is reported through the custodian bank for the same time period. Historically, there has always been a discrepancy, but as the market value of the retirement fund continues to grow in size, so does the difference. This is due to updated year end alternative asset valuations that are received after the unit price for the CTF is published. The retirement funds' audited financials are issued approximately 3 months after that price is established. Accordingly, the values in the audited financials can vary from the prices used to value the CTF as both have different pricing policies.

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

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

Fixed Income

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

During fiscal year 2016, $600 million in cash was transferred out of fixed income to other asset classes. The yield on the 10-year treasury decreased, starting at 2.33 percent and ending at 1.49 percent. It reached a high of 2.43 percent in early July 2015 and a low of 1.46 percent near the end of June 2016.

Highlights

- The portfolio underperformed the Barclays Universal Index for the year, returning 4.77 percent versus 5.82 percent for the Universal Index.
- Within the portfolio, credit and U.S. government bonds were over-weighted, while structured bonds were underweighted.
- Transactions totaled $2.5 billion in purchases and $2.5 billion in sales.

Tangible Assets

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

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

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

Highlights

- This asset class is still relatively new and is in a ramp-up phase.
- The Board approved investments in eight funds totaling $2.2 billion during FY 2016.
- The asset class made its first investment in a non-USD fund.
- $1.29 billion of committed capital was drawn during the fiscal year.
- $445 million in distributions were returned to the WSIB.

Real Estate

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

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

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

Highlights

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

Public Equity

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

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

Following slightly positive returns in the prior fiscal year, in FY 2016, equity markets declined with the global equity market returning -3.54 percent, compared to 1.11 percent and 23.71 percent rises in the two previous fiscal years. The U.S. equity markets outperformed non-U.S. developed and emerging markets, returning 2.25 percent over the year, but emerging markets continued to face challenges with equity markets there declining with a -12.16 percent return for the fiscal year. Non-U.S. developed markets fared better than emerging markets but underperformed U.S. markets with a -8.99 percent return. The negative FY returns outside the U.S. were driven, in part, by lowered growth aspects for these markets, the political challenges facing Europe (e.g. 'Brexit'), and falling commodity prices which impact the growth potential of several emerging markets. Non-U.S developed and emerging markets also faced the headwind of a strongly rising U.S. dollar, which made non-U.S.-dollar-denominated returns look much weaker to a U.S. dollar based investor such as the WSIB.

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

Overall, the public equity program continued to outperform, with a -2.60 percent return for the overall program versus a -3.54 percent return for the benchmark, contributing 94 basis points of value added, net of all fees and expenses. Avoiding losses during down markets is an important aim of the public equity program, and the program significantly protected on the downside in the past fiscal year. Long-term performance continues to be the focus, and staff is satisified with the value added over longer periods. Staff continues to believe that a public equity program that modestly outperforms most years will deliver significant value added over the long term.

Highlights

- The U.S. equity program outperformed its benchmark by 31 basis points (bps) with a return of 2.57 percent versus the benchmark's 2.25 percent return. The program has a modest value tilt. Over long periods of time, a value tilt has increased returns, and U.S. value stocks were in favor in the first half of 2016.
- The developed international equity program returned 78 bps more than its benchmark with the portfolio returning -8.22 percent while the benchmark had a -8.99 percent return.
- The active global equity program continued to perform well, 98 bps better than the benchmark, returning -2.57 percent versus the benchmark return of -3.54 percent. In this segement of the portfolio, staff believe that allowing skilled active management to choose the best stocks, wherever there are in the world, presents the best return opportunities long term.

- The emerging markets equity program significantly outperformed its benchmark by 418 bps, returning -7.98 percent versus the benchmark return of -12.16 percent. Staff made significant changes over the course of the fiscal year ending June 30, 2016, and while long term performance is the focus for staff's evaluation, this improved performance for this fiscal year appears promising.
- Overall, the public equity portfolio within the CTF is well structured and continued to deliver outperformance this past fiscal year.

Private Equity

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. The portfolio is being managed to a model portfolio to ensure adequate diversification by general partner, strategy type and geographic region.

As of June 30, 2016, the private equity portfolio was valued at $17.4 billion, or 21.14 percent of the CTF, compared with $18.5 billion and 22.62 percent at the previous fiscal year-end. The decrease in the value of the portfolio reflects the fact that distributions received by the WSIB from portfolio company liquidations exceeded capital drawn for new investment by approximately $1.6 billion during the fiscal year, while appreciation of portfolio value was relatively modest. The program has been strongly cash flow positive each year since 2011.

During the fiscal year, the WSIB closed on nearly $3.6 billion of new commitments across 11 private equity funds, one of which represented a new general partner relationship. Capital drawn for investment was approximately $0.1 billion lower than in the previous year, although the pace of investment has remained relatively consistent since 2010. Distributions from portfolio company liquidations were very strong again this year, approximately equal to distributions in the prior fiscal year.

Highlights

- $3.6 billion in new commitments to funds were closed during FY 2016 compared to $4.1 billion in FY 2015.
- $2.6 billion of capital was drawn for investment during the fiscal year compared to $2.7 billion in the prior year.
- $4.2 billion in distributions were returned to the CTF in FY 2016 equal to the $4.2 billion distributed in FY 2015.

Innovation Portfolio

The innovation portfolio gives staff the ability to make strategic investments that fall outside the established asset class programs currently used by the Board. In addition, this portfolio provides the Board with comfort and demonstrated success before committing larger dollar amounts to new and innovative investment strategies.

Highlights

- The resource equity strategy within the innovation portfolio was liquidated during the fiscal year. Although the timing of establishing the strategy was not ideal, and unrelated changes in other parts of the Commingled Trust Fund—such as increased emerging markets exposure—reduced its benefits, the strategy provided an opportunity for cross asset-class collaboration, as well as experience with managing an internal equity portfolio.

OTHER FUNDS UNDER MANAGEMENT

Defined Contribution Retirement Funds

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

PERS 3: $2.5 Billion

SERS 3: $1.7 Billion

TRS 3: $7.3 Billion

Deferred Compensation Program: $3.6 Billion

Judicial Retirement Account: $11.0 Million

Labor and Industries' Funds

$15.7 Billion

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

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

Permanent Funds

$1.0 Billion

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

Guaranteed Education Tuition Fund

$2.2 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, Treasury Inflation Protected Securities (TIPS), U.S. Equity, and International Equity.

Developmental Disabilities Endowment Trust Fund

$53.0 Million

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

Washington State Opportunity Scholarship Funds

$85.3 Million

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

Daily Valued Funds

Bond Market Fund $1.8 Billion

The goal of this daily-valued fund is to provide 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 Barclays Capital Intermediate Credit Index.

Savings Pool $872 Million

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

TIPS $244 Million

TIPS are designed to provide protection against inflation as measured by the Consumer Price Index. The fund is actively managed to meet or exceed the return of the Barclays Capital U.S. Treasury Inflation Protected Securities Index.

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, DDEF, WSOS, and Daily Valued Funds. The financial statements are reported separately due to the unique goals and objectives for each set of funds and each set of funds undergoes a separate financial statement audit.

Basic Financial Statements

The basic financial statements presented include the Statement of Net Assets, which reports the assets by general asset category and the related liabilities as of June 30, 2016, 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, 2016.

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

RETIREMENT FUNDS

EideBailly
CPAs & BUSINESS ADVISORS

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Retirement Funds (which is comprised of the Commingled Trust Fund and Plan-Specific Investments) of the State of Washington as managed by the Washington State Investment Board (the Retirement Funds), which comprise the statement of net investment position as of June 30, 2016, and the related statement of changes in net investment position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the investment position of the Retirement Funds as of June 30, 2016, and the changes in net investment position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 9 to the financial statements, total investments in the Commingled Trust Fund include investments valued at $33.2 billion (40.4% of total assets) as of June 30, 2016, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Eide Bailly LLP

Boise, Idaho
September 28, 2016

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Management Discussion and Analysis

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

The financial statements and footnotes follow this section of the report. The Statement of Net Investment Position provides information on the types of investments and the liabilities of the Retirement Funds. This information is summarized in Table 1. Table 1 also compares the asset, liability, and net investment position at June 30, 2016, with those at June 30, 2015. The Statement of Changes in Net Investment Position provides information on investment performance and other increases and decreases in the net investment position of the Retirement Funds for the year ended June 30, 2016. This information is summarized in Table 2, which also compares the financial activities of the Retirement Funds for the year ended June 30, 2016, with those of the year ended June 30, 2015. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements of the Retirement Funds.

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

Investment Returns Commingled Trust Fund (CTF)	FY 2016	FY 2015
Debt Securities	**4.8%**	**0.3%**
Equity Securities	**-2.6%**	**1.2%**
Alternative Assets*		
Private Equity	**4.7%**	**11.2%**
Real Assets	**10.4%**	**14.3%**
Tangible Assets	**-0.8%**	**3.6%**
Total Investment Return - CTF*	**2.7%**	**4.9%**

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

RETIREMENT FUNDS

As shown in Table 1, the net investment position of the Retirement Funds increased by $994.3 million during the fiscal year ended June 30, 2016. Net realized and unrealized gains within the portfolio increased net investment position by $413.2 million. The drivers behind these net gains during the current fiscal year were the positive returns in both the fixed income and alternative asset portfolios. Distributions to the retirement system decreased net investment position by $(945.1) million. The remaining increase in net investment position was due to net investment income received and reinvested in the portfolio and the impact of current and prior year unsettled investment trades.

Table 1 - Summarized Net Investment Position

	2016	2015	Dollar Change	Percent Change
Cash and Cash Equivalents	$ 2,004,960,432	$ 2,152,830,798	$ (147,870,366)	(6.9%)
Debt Securities	17,794,542,959	17,858,971,397	(64,428,438)	(0.4%)
Equity Securities	29,332,733,739	29,776,691,792	(443,958,053)	(1.5%)
Alternative Investments	33,222,024,053	32,055,690,438	1,166,333,615	3.6%
Total Return Swap Contracts	21,868	-	21,868	100.0%
Total Investments	**82,354,283,051**	**81,844,184,425**	**510,098,626**	**0.6%**
Collateral Held Under Securities Lending Agreements	682,233,592	843,051,714	(160,818,122)	(19.1%)
Open Foreign Exchange Contracts Receivable	2,538,973,937	1,989,775,468	549,198,469	27.6%
Other Receivables	597,761,516	424,215,274	173,546,242	40.9%
Total Assets	**86,173,252,096**	**85,101,226,881**	**1,072,025,215**	**1.3%**
Obligations Under Securities Lending Agreements	682,233,592	843,051,714	(160,818,122)	(19.1%)
Open Foreign Exchange Contracts Payable	2,528,641,389	1,984,641,326	544,000,063	27.4%
Other Payables	272,633,825	578,107,804	(305,473,979)	(52.8%)
Total Liabilities	**3,483,508,806**	**3,405,800,844**	**77,707,962**	**2.3%**
Net Investment Position	**$ 82,689,743,290**	**$ 81,695,426,037**	**$ 994,317,253**	**1.2%**

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

- Cash and cash equivalents decreased by $(147.9) million. This cash balance represents less than 3 percent of total invested balances. Initially, net investment income received from all asset classes and contributions are reinvested in money market funds. Withdrawals by the Retirement Funds are also funded from cash balances. These balances fluctuate within policy ranges, as asset allocation decisions are made with accumulated cash to longer term investments. Transfers from other asset classes that were reinvested in money market funds, totaled $1,152.3 million. Withdrawals by the Retirement Funds to cover operating needs, reduced liquid assets by $(945.1) million. The remaining change was investment income net of expenses reinvested in money market funds and settlement of prior year fixed income trades in the current year.
- Debt securities decreased by $(64.4) million during the current fiscal year. Proceeds from the sale of fixed income securities were transferred to other asset classes totaling $(881.9) million. Net realized and unrealized gains increased fixed income securities by $191.8 million. The remaining change was net investment income received and reinvested within the fixed income portfolio and the impact of current and prior year unsettled investment trades. The global low interest rate environment continued in Fiscal Year 2016, due to central bank policies, slow economic growth, and low inflation. The Barclays Universal Index, which includes high yield and emerging markets, slightly underperformed the Barclays Aggregate Index, which does not. Treasury yields moved up and down for the first six months of the fiscal year, then fell for the last six months. For the full fiscal year, long duration treasuries dramatically outperformed short duration ones, as did long duration credits. The Federal Open Markets Committee raised the Fed Funds rate at its December meeting. Fixed income performance was positive for the fiscal year. However, the retirement fund fixed income underperformed its benchmark due to its exposure to emerging markets and commodity-oriented companies.

- Equity securities decreased by ($444.0) million. Net realized and unrealized losses decreased equity balances by $(1,245.70) million. Transfers from other asset classes to rebalance within policy targets increased equities by $344.9 million. The remaining increase was net investment income received and reinvested in equity securities and the impact of current and prior year unsettled investment trades. Overall, the U.S. equity market returned 2.3 percent and the non U.S. market lost (9.7) percent as measured by Morgan Stanley Capital International (MSCI) indexes, which are broad barometers of overall market returns. Economic concerns led to declines in returns over the prior year in both the U.S and non-U.S equity markets. The U.S. equity market continued to perform relatively better in fiscal year 2016 versus non-U.S. equity markets. During Fiscal Year 2016, the U.S. dollar held its appreciated value due to interest rate differentials, superior U.S. economic growth, and the dollar's safety. Returns from non-U.S. equity markets suffered from local market declines and the strength of the U.S. dollar. Generally, the local market declines were due to slower Gross Domestic Product (GDP) growth and higher unemployment relative to the U.S. and broadly lower interest rates. The price of oil and several other commodities fell significantly over the second half of calendar year 2015 and then largely rebounded in the first half of 2016. In the U.S., value-oriented securities, including those that pay dividends, outperformed growth securities as well as the broader market, with most of that outperformance coming in the first half of 2016.
- Alternative investments increased by $1,166.3 million. Distributions received from general partners totaled $6,529.2 million. The cash flow was used to fund capital calls and expenses of $(5,913.90) million. These net distributions received were transferred to other asset classes. Net realized and unrealized gains for the current fiscal year increased alternative investments by $1,428.1 million. The remaining increase was net investment income reinvested within the fund. Private equity activity in fiscal year 2016 was very similar to the prior fiscal year in terms of new investment deals and portfolio exits. Distributions received from portfolio exits again significantly exceeded capital drawn to fund new portfolio investments. However, appreciation of the portfolio's value was much more moderate than in the prior year, reflecting a general reduction of global equity returns, both public and private. Debt financing markets remained robust, allowing new investments to be funded on relatively favorable terms, but general partners continued to show restraint in the pace of investment, as purchase prices remained high. The strong return from real estate in Fiscal Year 2016 resulted from a combination of appreciation due to strong tenant demand, continued high investor demand, and the completion of properties that had been under development. Tangible asset returns were partially impacted by commodity exposure during the current fiscal year. The price of oil dropped from the calendar year end price per barrel of $60 over 50 percent to $26 in February 2016. Oil prices rebounded by fiscal year end to $48 per barrel. Tangible returns were positively impacted by the sale of two fund assets that produced realized gains.
- Collateral held and obligations under securities lending agreements decreased by $(160.8) million. Reported collateral balances in the Retirement Funds financial statements represent only cash received as collateral and reinvested. Additional securities received as collateral totaled $890.7 million. Overall securities on loan and collateral held increased by $105.0 million and $91.5 million, respectively. During the current fiscal year there was strong demand to borrow U.S. equity securities due to market volatility and uncertainty, which drove loan balances higher. This was offset by lower Non-U.S. equity lending activity. Overall, equity balances continue to represent the majority of securities lent. U.S. Treasury lending increased slightly from prior fiscal year as investors reacted to volatile equity markets with a flight to quality.
- Open foreign exchange contracts receivable and payable increased by $544.0 million. Investment managers use spot and forward currency contracts in connection with the cash overlay program, as well managing trade settlements in foreign markets. As with other trading related receivables and payables, the balances fluctuate based on the trading needs of the managers and have little correlation to invested balances.
- Other payables and receivable balances changed due to fluctuations in unsettled security trade balances. Trading volumes can vary substantially, based on the timing of additional cash flows, market movements, and rebalancing of asset classes within a portfolio. Accordingly, there is generally minimal correlation to invested balances.

As shown in Table 2, net investment income for the fiscal year decreased by $(1,656.7) million, almost entirely due to decreases in net realized and unrealized gains from the previous year. This was due to negative investment returns within the equity portfolio in the current fiscal year and a reduction of returns from the prior year in the alternative asset portfolio. The annualized return for the fiscal year ended June 30, 2016, was 2.7 percent compared to the prior fiscal year return of 4.9 percent. Net investment income and expenses remained relatively stable compared to the prior year. Distributions to the Retirement System decreased by $(396.2) million. Employer and employee contribution rates increased significantly during the current fiscal year resulting in less cash withdrawals from the investment balances.

Table 2 - Summarized Changes in Net Investment Position

	2016	2015	Dollar Change
Net Investment Income			
Investment Income	$ 1,860,398,587	$ 1,815,223,828	$ 45,174,759
Net Realized and Unrealized Gains	413,159,297	2,088,219,006	(1,675,059,709)
Investment Expenses	(334,163,704)	(307,338,314)	26,825,390
Net Investment Income	**1,939,394,180**	**3,596,104,520**	**(1,656,710,340)**
Net Withdrawal by Retirement Plans	(945,076,927)	(1,341,234,176)	(396,157,249)
Net Investment Position - Beginning	**81,695,426,037**	**79,440,555,693**	2,254,870,344
Net Investment Position - Ending	**$ 82,689,743,290**	**$ 81,695,426,037**	**$ 994,317,253**

The fair value of the Retirement Funds' assets is directly impacted by the returns of the various capital markets which the WSIB invests in. One of the benefits of diversification gained by investing across various investment types, as well as broadly within an asset class, is the reduction in aggregate volatility of the total investment portfolio. The WSIB makes the asset allocation decisions for the Retirement Funds based on recommendations from its staff and other investment experts. The Retirement Fund assets are rebalanced by WSIB across asset classes, as appropriate, when fair values of assets fall outside policy ranges.

Retirement Funds Statement of Net Investment Position - June 30, 2016

See notes to financial statements

	Commingled Trust Fund	Plan-Specific Investments	Total	Percent of Plan Assets
ASSETS				
Investments:				
CASH AND CASH EQUIVALENTS	$ 1,838,854,253	$ 166,106,179	$ 2,004,960,432	2.4%
DEBT SECURITIES				
Mortgage and Other Asset Backed Securities	1,078,557,663	-	1,078,557,663	
Corporate Bonds	9,085,459,370	-	9,085,459,370	
U.S. Government and Agency Securities	6,309,623,460	-	6,309,623,460	
Foreign Government and Agency Securities	1,320,902,466	-	1,320,902,466	
Total Debt Securities	17,794,542,959	-	17,794,542,959	21.6%
EQUITY SECURITIES				
Common and Preferred Stock	17,707,523,070	-	17,707,523,070	
Commingled Equity Trusts and Mutual Funds	10,495,210,229	-	10,495,210,229	
Real Estate Investment Trusts	321,959,061	-	321,959,061	
Depository Receipts and Other Miscellaneous	808,041,379	-	808,041,379	
Total Equity Securities	29,332,733,739	-	29,332,733,739	35.6%
ALTERNATIVE INVESTMENTS				
Private Equity	17,446,346,718	-	17,446,346,718	
Real Estate	13,247,480,484	-	13,247,480,484	
Tangible Assets	2,528,196,851	-	2,528,196,851	
Total Alternative Investments	33,222,024,053	-	33,222,024,053	40.4%
TOTAL RETURN SWAP CONTRACTS				
Total Return Equity Swaps	27,881,616	-	27,881,616	
Total Return Fixed Income Swaps	(27,859,748)	-	(27,859,748)	
Net Total Return Swap Contracts	21,868	-	21,868	Trace
Total Investments	82,188,176,872	166,106,179	82,354,283,051	100.0%
Collateral Held Under Securities Lending Agreements	682,233,592	-	682,233,592	
Investment Earnings Receivable	303,707,670	162,449	303,870,119	
Receivables for Investments Sold	293,891,397	-	293,891,397	
Open Foreign Exchange Contracts Receivable	2,538,973,937	-	2,538,973,937	
Total Assets	86,006,983,468	166,268,628	86,173,252,096	
LIABILITIES				
Obligations Under Securities Lending Agreements	682,233,592	-	682,233,592	
Investment Management Fees Payable	14,898,840	22,222	14,921,062	
Payable for Investments Purchased	257,712,763	-	257,712,763	
Open Foreign Exchange Contracts Payable	2,528,641,389	-	2,528,641,389	
Total Liabilities	3,483,486,584	22,222	3,483,508,806	
NET INVESTMENT POSITION	$ 82,523,496,884	$ 166,246,406	$ 82,689,743,290	

Retirement Funds Statement of Changes in Net Investment Position - Year Ended June 30, 2016

See notes to financial statements

	Commingled Trust Fund	Plan-Specific Investments	Total
Net Investment Income			
Investment Income:			
Interest, Dividends, and Other Investment Income	$ 1,859,072,965	$ 1,325,622	$ 1,860,398,587
Net Realized Capital Gains	1,787,795,616	-	1,787,795,616
Unrealized Losses	(1,374,636,319)	-	(1,374,636,319)
Less:			
Investment Expenses	(318,512,910)	(262,659)	(318,775,569)
WSIB Operating Expenses	(15,380,902)	(7,233)	(15,388,135)
Net Investment Income	1,938,338,450	1,055,730	1,939,394,180
Net Withdrawal by Retirement Plans	-	(945,076,927)	(945,076,927)
Investments in Commingled Funds	805,077,365	(805,077,365)	-
Withdrawals from Commingled Funds	(1,800,431,303)	1,800,431,303	-
Increase in Net Investment Position	942,984,512	51,332,741	994,317,253
NET INVESTMENT POSITION, JUNE 30, 2015	81,580,512,372	114,913,665	81,695,426,037
NET INVESTMENT POSITION, JUNE 30, 2016	$ 82,523,496,884	$ 166,246,406	$ 82,689,743,290

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 Washington State Investment Board (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.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments which include foreign currencies and short term investment funds. The short term investment funds are valued at cost. Accordingly, these investments are excluded from the fair value schedule in Note 9 to the basic financial statements.

Valuation of Investments

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

Revenue Recognition

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

Securities Lending

The collateral received under securities lending agreements where the Retirement Funds have the ability to spend, pledge, or sell the collateral without borrower default, is included in the Statement of Net Investment Position. Liabilities resulting from these transactions are also included in each fund's net investment position. Additionally, costs associated with securities lending transactions, including broker commissions and lending fees paid to the custodian bank, are reported as investment expenses in the accompanying financial statements. The Statement of Net Investment Position does not include detailed holdings of securities lending collateral by investment classification. Securities lending income for the fiscal year ended June 30, 2016, was $13.8 million, and expenses associated with securities lending were $4.4 million.

Contributions and Withdrawals

Contributions and withdrawals are recorded when received or paid.

Use of Estimates

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

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

The Commingled Trust Fund (CTF) is a diversified pool of investments which is used as an investment vehicle for 15 separate retirement plans and 1 supplemental insurance fund. These plans hold shares in the CTF, which represent a percentage ownership in the pool of investments. Plans are allowed to purchase or sell shares in the CTF, based on the fair value of the underlying assets on the first business day of each month.

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

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

Note 3. Breakdown of Plan Assets

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

Schedule of Participation

RETIREMENT PLANS:	Commingled Trust Fund	Plan-Specific Investments	Total Plan Net Assets	Percent of Plan Assets
HIGHER ED. SUPPLEMENTAL INSURANCE FUND	$ -	$ 45,802,205	$ 45,802,205	0.1%
LEOFF 1	5,367,854,329	2,026,220	5,369,880,549	6.5%
LEOFF 2	10,164,986,938	13,914,401	10,178,901,339	12.3%
PERS 1	7,081,255,965	3,263,901	7,084,519,866	8.6%
PERS 2/3 (DC and DB Plans)	31,894,723,852	28,854,129	31,923,577,981	38.6%
PUBLIC SAFETY EMPLOYEES 2	395,313,540	3,401,868	398,715,408	0.5%
SCHOOL EMPLOYEES 2/3 (DC and DB Plans)	5,474,857,774	12,209,623	5,487,067,397	6.6%
STATE PATROL 1	1,054,051,686	203,852	1,054,255,538	1.3%
STATE PATROL 2	42,295,907	600,536	42,896,443	0.1%
TEACHERS 1	5,489,642,622	4,052,958	5,493,695,580	6.6%
TEACHERS 2/3 (DC and DB Plans)	15,355,810,355	51,916,337	15,407,726,692	18.6%
VOLUNTEER FIREFIGHTERS	186,508,938	376	186,509,314	0.2%
LEOFF RETIREMENT BENEFIT IMPROVEMENT	16,194,978	-	16,194,978	Trace
Total Net Investment Position at June 30, 2016	**$ 82,523,496,884**	**$ 166,246,406**	**$ 82,689,743,290**	**100.0%**

Note 4. Fees and Expenses

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

Schedule of Investment Fees and Expense

	Fees Paid	Netted Fees *	Total Fees	Net Assets Under Management
EQUITY SECURITIES:				
Public Equity Active Management	$ 51,024,479	$ 319,535	$ 51,344,014	$ 13,859,906,313
Public Equity Passive Management	2,200,055	811,963	3,012,018	15,991,302,200
ALTERNATIVE INVESTMENTS:				
Private Equity	178,345,956	10,082,593	188,428,549	17,546,187,655
Real Estate	27,175,753	4,618,307	31,794,060	13,250,547,455
Tangible Assets	48,281,073	-	48,281,073	2,529,606,380
CASH MANAGEMENT	2,170,516	-	2,170,516	1,521,703,959
DEBT SECURITIES	-	-	-	17,990,489,328
OTHER FEES:				
Consultants and Accounting	1,272,650	-	1,272,650	NA
Legal Fees	1,485,854	-	1,485,854	NA
Research Services	2,245,908	-	2,245,908	NA
Securities Lending Rebates and Fees	4,387,551	-	4,387,551	NA
Miscellaneous Fees	185,774	-	185,774	NA
	$ 318,775,569	$ 15,832,398	$ 334,607,967	$ 82,689,743,290

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

Note 5. Unfunded Commitments

The Retirement Funds have entered into a number of agreements that commit the Retirement Funds, upon request, to make additional investment purchases up to predetermined amounts. As of June 30, 2016, the Retirement Funds had a total of $23.9 billion in unfunded commitments in the following asset classes (in millions):

Private Equity	$12,977
Real Estate	$7,784
Innovation Portfolio	$22
Tangible Assets	$3,164

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, 2016, investment securities (excluding cash, cash equivalents, and repurchase agreements held as securities lending collateral) are registered and held in the name of the WSIB, for the benefit of the Retirement Funds, and are not exposed to custodial credit risk. There are no general policies relating to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. The risk is managed within the portfolios using effective duration, which is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Increases in prevailing interest rates generally translate into decreases in fair values of fixed income investments. The Retirement Funds' fixed income investments are to be actively managed to meet or exceed the return of the Barclays Capital Universal Index, with volatility similar to or less than the index. The fixed income portfolio's duration is to be targeted within plus or minus 20 percent of the duration of the portfolio's performance benchmark. As of June 30, 2016, 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, 2016. The schedules display various asset classes held by maturity in years, effective durations, and credit ratings. All debt securities are reported using the average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity for these securities, taking into account possible prepayments of principal.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Retirement Funds' investment policies limit the fixed income securities to investment grade or higher at the time of purchase. Investment grade securities are those fixed income securities with a Moody's rating of Aaa to Baa or a Standard and Poor's rating of AAA to BBB. The Retirement Funds' rated debt investments as of June 30, 2016, 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, 2016.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Retirement Funds do not have a formal policy to limit foreign currency risk. The Retirement Funds manage their exposure to fair value loss by requiring their international securities investment managers to maintain diversified portfolios by sector and by issuer, to limit foreign currency and security risk. The Retirement Funds exposure to foreign currency risk is presented in Schedule 3, which provides information on deposits and investments held in various foreign currencies. Private equity and real estate are presented according to the financial reporting currency of the individual funds and is not a presentation of currency exposure relating to the underlying holdings. The schedule is stated in U.S. dollars. In addition, the CTF has a maximum foreign currency exposure at June 30, 2016, of $745.8 million invested in two emerging markets commingled equity investment trust funds.

Note 8. Securities Lending

Washington State law and WSIB policy permit Retirement Funds to participate in securities lending programs to augment investment income. The WSIB has entered into an agreement with State Street Corporation (SSC) 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, 2016, was approximately $1.5 billion. The securities on loan remain in the Statement of Net Investment Position in their respective categories. At June 30, 2016, cash collateral received totaling $.7 billion is reported as a securities lending obligation, and the fair value of the re-invested cash collateral totaling $.7 billion is reported as security lending collateral in the Statement of Net Investment Position. Securities received as collateral where the Retirement Funds do not have the ability to pledge or sell the collateral unless the borrower defaults, are not reported as assets and liabilities in the Statement of Net Investment Position. Total securities received as collateral at June 30, 2016, was $.9 billion.

Debt and equity securities were loaned and collateralized by the Retirement Funds' agent with cash and U.S. Government or U.S. Agency Securities, including U.S. Agency Mortgage Backed Securities (exclusive of letters of credit). When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest of the loaned securities. The following table summarizes the securities held from reinvestment of cash collateral and securities received as collateral at June 30, 2016.

In Millions	Cash Collateral	Non Cash Collateral	Total
Mortgage Backed Securities	$ -	$ 463.1	$ 463.1
Repurchase Agreements	271.1	-	271.1
Yankee CD	151.7	-	151.7
Commercial Paper	115.3	-	115.3
US Treasuries	6.4	432.1	438.5
Cash Equivalents and Other	137.7	-	137.7
Total Collateral Held	**$ 682.2**	**$ 895.2**	**$ 1,577.4**

During Fiscal Year 2016, securities lending transactions could be terminated on demand by either the Retirement Funds or the borrower. As of June 30, 2016, the cash collateral held had an average duration of 17.2 days and an average weighted final maturity of 73.4 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 2016, there were no significant violations of legal or contractual provisions, no failures by any borrowers to return loaned securities or to pay distributions thereon. During Fiscal year 2016, the Retirement Funds incurred no losses resulting from a default by either the borrowers or the securities lending agents.

Note 9. Fair Value

GASB Statement No. 72, Fair Value Measurement and Application, (Statement 72) specifies a hierarchy of valuation classifications based on whether the inputs to the valuation techniques used in each valuation classification are observable or unobservable. These classifications are summarized in three broad levels listed below:

- Level 1 – Unadjusted quoted prices for identical instruments in active markets
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly, including quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as exchange rates, financing terms, interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks, and default rates)
- Level 3 – Valuations derived from valuation techniques in which significant inputs or significant value drivers are unobservable.

Inputs used to measure the fair value might fall in different levels of the fair value hierarchy. The Retirement Funds measure fair value using the lowest level input that is significant to the fair value measurement of each investment with Level 3 being the lowest level. The determination of fair value of an investment is not necessarily an indication of the risk or liquidity associated with the investments. In determining the appropriate levels, the Retirement Funds performed a detailed analysis of the assets and liabilities that are subject to Statement 72. Valuation policies and procedures are managed by the Investment Accounting and Administration unit which regularly monitors fair value measurements. Fair value measurements are prepared and reviewed monthly, and any third party valuations are reviewed for reasonableness and compliance with relevant accounting standards.

The Retirement Funds receive fair value prices for publicly traded securities directly from their custodian bank. These prices are obtained from reputable pricing sources which include but are not limited to Thomson Reuters, Barclays, and Interactive Data Corporation. The custodian bank performs the following tolerance and review checks on the pricing data on a daily basis:

Publicly Traded Equity

- Comparison of primary pricing sources to a secondary source with a zero tolerance threshold.
- Researches price changes from the previous day of 10 percent or greater with verification to secondary sources.
- Researches price changes from the previous day in excess of 20 percent by reviewing market related company news and corporate actions.
- Prices unchanged in excess of 5 days requires verification there is no market status change.

Fixed Income

- Researches price changes from the previous day of 2 to 5 percent or greater with corroborating evidence required from the primary pricing vendor.
- Prices unchanged in excess of 10 days are sent to the appropriate vendor for review and verification.

The Retirement Funds receive fair value measurements for alternative assets from a third party provider who collates data received from the general partners and other sources and prepares monthly valuation reports. Retirement Fund staff review these reports monthly and verify the information to the appropriate source.

The Retirement Funds invest in Collective Investment Trusts operated by a bank or trust company and groups assets contributed into a commingled investment fund. These “mutual fund” type investments are not available to the general public and are open-ended funds which issues or reduces shares for purchases and redemptions. The commingled fund manager determines a daily price per unit of the collective trust by obtaining fair values of the underlying holdings using reputable pricing sources and computing an overall net asset value per share.

The following table presents fair value measurements as of June 30, 2016:

		Fair Value Measurements Using:		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
INVESTMENTS				
DEBT SECURITIES				
Mortgage and Other Asset Backed Securities	$ 1,078,557,663	$ -	$ 1,078,557,663	$ -
Corporate Bonds	9,085,459,370	-	9,085,459,370	-
US and Foreign Government and Agency Securities	7,630,525,926	-	7,630,525,926	-
Total Debt Securities	17,794,542,959	-	17,794,542,959	-
EQUITY SECURITIES				
Common and Preferred Stock	17,707,523,070	17,674,187,590	33,335,480	-
Depository Receipts and Other Miscellaneous	808,041,379	805,891,133	2,150,246	-
Mutual Funds and Exchange Traded Funds	1,818,615	1,818,615	-	-
Real Estate Investment Trusts	321,959,061	321,959,061	-	-
Private Equity and Tangible Asset Funds	158,538,389	158,538,389	-	-
Total Equity Securities	18,997,880,514	18,962,394,788	35,485,726	-
TOTAL RETURN SWAP CONTRACTS (INVESTMENT DERIVATIVE)	21,868	-	21,868	-
Total Investments By Fair Value Level	36,792,445,341	18,962,394,788	17,830,050,553	-
INVESTMENTS MEASURED AT NET ASSET VALUE				
Private Equity	17,346,425,798			
Real Estate	13,247,480,484			
Tangible Assets	2,469,579,382			
Collective Investment Trust Funds (Equity Securities)	10,493,391,614			
Total Investments at Net Asset Value	43,556,877,278			
Total Investments Measured at Fair Value	$ 80,349,322,619			
OTHER ASSETS (LIABILITIES) AT FAIR VALUE				
Collateral Held Under Securities Lending Agreements	$ 682,233,592	$ -	$ 682,233,592	$ -
Net Foreign Exchange Contracts Receivable - Forward and Spot	10,332,548	-	10,332,548	-
Margin Variation Receivable - Futures Contracts	17,523,189	-	17,523,189	-
Obligations Under Securities Lending Agreements	(682,233,592)	-	(682,233,592)	-
Total Other Assets (Liabilities) Measured at Fair Value	$ 27,855,737	$ -	$ 27,855,737	$ -

Debt and Equity Securities (Level 1 and 2)

Investments classified as level 1 in the above table were exchange traded equity securities whose values are based on published market prices and quotations from national security exchanges as of the appropriate market close, as of each reporting period end.

Investments classified as level 2 in the above table were primarily comprised of publicly traded debt securities and exchange traded stocks traded in inactive markets. Publicly traded debt securities are sourced from reputable pricing vendors, using models that are market-based measurements representing their good faith opinion as to the exit value of a debt security, in an orderly transaction under current market conditions. Such models take into account quoted prices, nominal yield spreads, benchmark yield curves, prepayment speeds, and other market corroborated inputs.

Alternative Assets (Investments Measured at Net Asset value)

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 using the net asset value per share (or its equivalent) of the Retirement Funds ownership interest in partners' capital. These values are based on the individual investee's capital account balance reported at fair value by the general partner, at the most recently 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 approximately $33.2 billion (40.4 percent of total investments), as of June 30, 2016. Because of the inherent uncertainties in estimating fair values, it is possible that the estimates will change in the near-term or the subsequent sale of assets would be different than the June 30, 2016 reported net asset value.

With the exception of two publicly traded funds, these investments can never be redeemed. Instead, the nature of these investments provides for distributions from the sale/liquidation of the underlying assets of the fund and from net operating cash flows. It is anticipated that the various investments within each asset class will be liquidated over the following periods:

Liquidation Periods	Private Equity	Real Estate	Tangible Assets	Total	Percent of Total
Publicly Traded - Level 1	$ 99,920,921	$ -	$ 58,617,468	$ 158,538,389	0.5%
Less than 3 years	124,549,923	168,555,095	39,872	293,144,890	0.9%
3 to 9 years	8,174,741,032	2,038,743,713	765,659,352	10,979,144,097	33.0%
10 years and over	9,047,134,842	11,040,181,676	1,703,880,159	21,791,196,677	65.6%
Total	$ 17,446,346,718	$ 13,247,480,484	$ 2,528,196,851	$ 33,222,024,053	100.0%

Private Equity Limited Partnerships

This includes 262 private equity limited liability partnerships that invest primarily in the United States, Europe, and Asia in leveraged buyouts, venture capital, distressed debt, and growth equity (see Note 12 to the basic financial statements for additional investment related strategies and policies).

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

- Valuations of publicly traded portfolio companies are based on active exchanges using quoted market prices as of the close of trading for each month-end.
- When a portfolio company investment does not have a readily available market price but has a return that is determined by reference to an asset for which a market price is readily available, valuations are based on the closing market price of the reference asset on the valuation date, adjusted for unique factors that affect the fair value of the investment held.

- When the portfolio company investments are private holdings and are not traded on active security exchanges, valuation methodologies used consist primarily of income and market approaches. The income approach involves a discounted cash flow analysis based on portfolio companies' projections. The market approach involves valuing a company at a multiple of a specified financial measure, generally Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA), based on multiples of comparable publicly traded companies.

Real Estate

This includes 31 real estate investments. Targeted investment structures within the real estate portfolio include real estate operating companies, limited liability companies, joint ventures, commingled funds, and co-investments (see Note 12 to the basic financial statements for additional investment related strategies and policies).

Real estate partnerships provide quarterly valuations based on the most recent capital account balance to the Retirement Fund management. Individual properties are valued by the investment management at least annually and are adjusted as frequently as quarterly if material market or operational changes have occurred. Properties are generally externally appraised every 1 to 5 years, depending upon the investment. 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.

Tangible Assets

This includes 29 limited liability structures and funds. The primary goal of the tangible asset portfolio is to generate a long-term sustainable and stable income stream, as well as generate appreciation at least commensurate with inflation (see Note 12 to the basic financial statements for additional investment related strategies and policies). Valuation practices of general partners and asset managers are consistent with private equity limited partnerships.

Collective Investment Trust Funds (Investments Measured at Net Asset Value)

The Retirement Fund invests in three separate Collective Investment Trust Funds (Fund). Each Fund determines a fair value by obtaining fair values of the underlying holdings, using reputable pricing sources and computing an overall net asset value per share. The holdings within each fund are publicly traded equity securities.

Two Funds are passively managed to approximate the capitalization weighted total rates of return of the Morgan Stanley Capital International (MSCI) US Investable Market Index and the MSCI Emerging Markets Investable Market Index. Each Fund has daily openings and contributions, and withdrawals can be made on any business day. The Fund manager, at its discretion, may require withdrawal proceeds to be made partially or wholly in kind. Under certain circumstances the fund manager may choose to suspend valuation and/or the right to make contributions and withdrawals from the fund. Such circumstances include actual or anticipated closure, restriction, or suspension of trading activity in any markets or exchanges where the Fund investments are traded, where the purchase, sale, or pricing of the Fund's investments would not be reasonably practicable or advisable, or where suspending contributions or withdrawals would be in the best interest of the Fund or participants.

One Fund seeks to achieve long-term capital appreciation through active investment management in emerging market countries. The index against which the Fund compares its performance is the MSCI Emerging Market Index. The Retirement Fund may redeem some or all of their holdings on each monthly valuation date. The Fund manager may delay redemption proceeds if it determines that it is reasonably necessary to prevent a material adverse impact on the Fund or other investors. The Fund manager, at its discretion, may require withdrawal proceeds to be made partially or wholly in kind.

Other Assets and Liabilities

Forward exchange contracts are valued by interpolating a value using the spot foreign exchange rate and forward points (based on the spot rate and currency interest rate differentials), which are all inputs that are observable in active markets (level 2).

Collateral held and obligations under securities lending agreements are detailed in Note 8 to the basic financial statements. Cash collateral securities (and the offsetting obligation) are valued by the Retirement Fund lending agent and sourced from reputable pricing vendors, using models that are market-based measurements representing their good faith opinion as to the exit value of a security, in an orderly transaction under current market conditions. Such models take into account quoted prices, nominal yield spreads, benchmark yield curves, prepayment speeds, and other market corroborated inputs.

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 margin variation represents the current gain or loss remaining to be settled from the prior day. The custodian bank provides quoted market prices for these securities from a reputable pricing vendor.

Note 10. Derivatives

Retirement Funds are authorized to utilize various derivative financial instruments, including financial futures, forward contracts, interest rate swaps, credit default swaps, equity swaps, and options. Derivative transactions involve, to varying degrees, market and credit risk. At June 30, 2016, the Retirement Funds held investments in financial futures, forward currency contracts, and total return swap contracts that are recorded at fair value, with changes in value recognized in investment income in the Statement of Changes in Net Investment Position, in the period of change. For accounting and reporting purposes, the derivative instruments are considered investment derivatives and not hedging derivatives.

Derivatives are generally used to achieve the desired market exposure of a security, index or currency, adjust portfolio duration, or rebalance the total portfolio to the target asset allocation. Derivative contracts are instruments that derive their value from underlying assets, indices, reference interest rates, or a combination of these factors. A derivative instrument could be a contract negotiated on behalf of the Retirement Funds and a specific counterparty. This would typically be referred to as an over-the-counter (OTC) contract, such as forward and total return swap 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, 2016, the Retirement Funds counterparty risk was approximately $39.3 million.

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

Forward currency contracts are agreements to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. These forward commitments are not standardized and carry counterparty credit risk, due to the possible nonperformance by a counterparty. The maximum potential loss is the aggregate face value in U.S. dollars at the time the contract was opened; however, the likelihood of such loss is remote. At June 30, 2016, the Retirement Funds had outstanding forward currency contracts with a net unrealized gain of $10.4 million. At June 30, 2016, foreign exchange contracts receivable and payable reported on the statement of net investment position consisted primarily of forward currency contracts. The aggregate forward currency exchange contracts receivable and payable were $2.47 billion and $2.46 billion, respectively. The contracts have varying maturity dates ranging from July 1, 2016, to September 21, 2016.

Total return swap contracts are agreements where one party makes payments based on a set rate, either fixed or variable, while the other party makes payments based on the return of the underlying or reference asset. Total return swaps allows the party receiving the total return to gain exposure and benefit from a reference asset without physically owning the security. The Retirement Fund swaps total bond market index returns for total equity index returns as the reference asset in emerging markets. The contracts have varying maturity dates ranging from July 20, 2016, to September 21, 2016. The value of these contracts are highly sensitive to interest rate changes.

The Retirement Funds' fixed income portfolio held derivative securities consisting of collateralized mortgage obligations with a fair value of $59.6 million at June 30, 2016. Domestic and foreign commingled investment trust 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 these funds is unavailable.
Derivatives, which are exchange traded, are not subject to credit risk. The counterparty credit ratings for forward currency and total return swap contracts that are subject to credit risk outstanding at June 30, 2016, 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, 2016 - Investment Derivative	
	Classification	Amount	Amount	Notional
FUTURES CONTRACTS:				
Bond Index Futures	Investment	$ 10,117,688	$ -	-
Equity Index Futures	Investment	20,569,057	17,523,189	172,529,590
		$ 30,686,745	$ 17,523,189	172,529,590
FORWARD CURRENCY CONTRACTS	Investment	$ (4,514,319)	$ 10,375,096	2,465,895,194
TOTAL RETURN SWAP CONTRACTS:				
Total Return Swaps Bond	Investment	$ 325,731	$ (217,109)	5,238,763
Total Return Swaps Equity	Investment	(246,160)	238,977	(33,098,511)
		$ 79,571	$ 21,868	(27,859,748)

Note 11. Dollar Weighted Returns

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

	Dollar Weighted Return
2016	2.41%
2015	4.58%
2014	18.88%
2013	12.35%
2012	1.35%
2011	21.14%
2010	13.27%
2009	-22.83%
2008	-1.19%
2007	21.24%
2006	16.70%

Note 12. Summary of Investment Policy

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

The WSIB is authorized to invest in the following: U.S. Treasury Bills; discount notes; repurchase agreements; reverse repurchase agreements; banker's acceptances; commercial paper; guaranteed insurance 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 2016.

Strategic and Performance Objectives

In accordance with RCW 43.33A.110, the portfolio is managed to maximize return at a prudent level of risk. The Retirement Funds return objective is to exceed the return of the following measures:

- Passive Benchmark: A custom benchmark consisting of public market indices, weighted according to asset allocation targets. Currently, the passive benchmark is comprised of 69 percent MSCI All Country World IMI Index Net, with U.S. Gross and 31 percent Barclays Capital Universal.
- Implementation Value Added (IVA): A custom benchmark consisting of the publicly-available indices, as defined in each asset class's policy, weighted according to asset allocation targets. This IVA benchmark differs from the passive benchmark, as it is not an investable benchmark due to the un-investable premium added to the tangible assets and private equity passive benchmarks.

The Retirement Fund Asset Allocation

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

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

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

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

Public Markets Equity

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

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

General Strategies

- The public markets equity portion of the Retirement Funds invests in publicly traded equities globally, including equity securities in the U.S., developed non-U.S., and emerging markets. The program has a global benchmark, currently the MSCI All Country World Investable Market Index (MSCI ACWI IMI).
- A mix of external managers approved by the WSIB Board will be used to implement the program.
- Passive management delivers broad diversified equity market exposure at low cost and is used when active managers cannot be identified and monitored appropriately. Passive management is also used when it is considered an appropriate alternative to active management, typically in more efficient markets.
- Active management is used when the Retirement Funds can identify, access, and monitor successful managers in markets that are less efficient. Active management seeks to enhance the risk/return profile of the program.

Asset Allocation

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

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

Fixed Income

The fixed income segment is to be managed to achieve the highest return possible consistent with the desire to control asset volatility, emphasize high yield to maturity opportunities to add value through active management, provide diversification to the overall investment program, to provide liquidity to the Retirement Funds 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

Any and all fixed income securities are permissible unless specifically prohibited, including but not limited to, the following:

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

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

Fixed Income Portfolio Constraints

- Revised Code of Washington (RCW) 43.33A.140 prohibits a corporate fixed income issues cost from exceeding 3 percent of the Retirement CTF's market value at the time of purchase, and its market value from exceeding 6 percent of the Retirement CTF's market value at any time. The Retirement Funds are managed with a more restrictive concentration constraint than required by the cited RCW. Exposure to any corporate issuer will not exceed 3 percent of the Retirement CTF Fixed Income Portfolio's market value.
- The par value of bonds from any one issuer with a below investment grade rating (as defined by Barclays Capital Global Family of Fixed Income Indices) shall not exceed 1 percent of the total portfolio's par value.
- Total market value of below investment grade credit bonds (as defined by Barclays Capital Global Family of Fixed Income Indices) shall not exceed 15 percent of the market value of the fixed income portfolio.
- Although below investment grade mortgage-backed, asset-backed, or commercial mortgage-backed securities may not be purchased, portfolio holdings that are downgraded to those levels or are no longer rated may continue to be held.
- The total market value of below investment grade mortgage-backed, asset-backed, and commercial mortgage-backed securities shall not exceed 5 percent of the market value of the fixed income portfolio.
- The fixed income portfolio's duration is to be targeted within plus or minus 20 percent of the duration of the portfolio's performance benchmark, the Barclays Capital Universal Index.

Target Allocations for the Fixed Income Sectors

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

Private Equity Investing

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

The objectives and goals of the private equity investment program are to:

- Produce a well-diversified profitable portfolio that will enhance the total return of the Retirement Funds portfolio and ultimately pay benefits to participants and beneficiaries, and meet actuarial requirements
- Diversify away from traditional capital market risks
- Employ consistent strategies that contain sufficient flexibility to take advantage of opportunities available to the Retirement Funds, due to changes in the private equity or debt marketplaces
- Achieve a superior total return as compared to traditional asset classes, and exceed the return of the Russell 3000 Index by 300 basis points.

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.

The Retirement Fund may invest in any real estate opportunity demonstrating acceptable risk-adjusted returns, provided it is not prohibited by Board policy or law. Investment structures may include the following:

- Real Estate Operating Companies

- Joint Ventures
- Commingled Funds (either closed or open-ended)
- Co-investments with existing WSIB real estate partners.

Diversification within the Real Estate program may be achieved by the following:

- Property type: any property type to include office, industrial, retail, residential, hotels, self-storage, health care properties, parking structures, land, and "other."
- Capital structure: any equity, debt, or structures financial position, either private or public.
- Life cycle: stabilized, vacant, redevelopment, or ground-up development.
- Geographic: diversified by regions, both domestically and internationally.
- Partner concentration: attention to the amount that the Retirement Fund commits to any one partnership.
- Property level: attention to the amount of capital invested in any one property.

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 2 investment strategies in the innovation portfolio involving private partnerships. Their individual holdings have been presented according to asset class on the Statement of Net Investment Position.

Tangible Assets

The primary goal of the tangible asset portfolio is to generate a long-term, predictable and persistent income stream. The secondary goal is to generate appreciation approximately commensurate with inflation. The structure of the investments are primarily targeted to those private funds or separate accounts, providing the WSIB, with the most robust governance provisions related to acquisition, dispositions, debt levels, and ongoing operational decisions for annual capital expenditures. For diversification purposes the Tangible Assets' portfolio focuses on income producing, physical assets, in the upstream and midstream segment of four main industries: Minerals and Mining, Energy, Agriculture and Society Essentials.

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

Schedule 1: Schedule of Maturities and Credit Quality

Investment Type	Total Fair Value	Maturity: Less than 1 year	1-5 years	6-10 years	More than 10 years	Effective Duration
Mortgage and Other Asset Backed Securities	$ 1,078,557,663	$ 100,102,273	$ 945,105,715	$ 33,349,675	$ -	2.8
Corporate Bonds	9,085,459,370	546,733,731	3,706,339,910	3,472,983,636	1,359,402,093	6.0
U.S. Government and Agency Securities	6,309,623,460	1,012,619,709	2,764,388,021	1,735,215,705	797,400,025	6.2
Foreign Government and Agency Securities	1,320,902,466	119,777,575	438,223,701	476,258,627	286,642,563	5.6
Total Retirement Funds Investment Categorized	17,794,542,959	$ 1,779,233,288	$ 7,854,057,347	$ 5,717,807,643	$ 2,443,444,681	5.9*
Investments Not Required to be Categorized						
Cash and Cash Equivalents	2,004,960,432					
Equity Securities	29,332,733,739					
Alternative Investments	33,222,024,053					
Total Return Swap Contracts	21,868					
Total Investments Not Categorized	64,559,740,092					
Total Investments	$ 82,354,283,051					

* Excludes cash balances in calculation

Schedule 2: Additional Credit Rating Disclosures

Moodys Equivalent Credit Rating	Investment Type: Total Fair Value	Mortgage and Other Asset Backed Securities	Corporate Bonds	U.S. Government and Agency Securities	Foreign Government and Agency Securities
Aaa	$ 7,986,604,054	$ 1,072,096,237	$ 456,723,146	$ 6,309,623,460	$ 148,161,211
Aa1	77,028,607	-	17,598,576	-	59,430,031
Aa2	191,106,616	390,504	95,738,574	-	94,977,538
Aa3	880,187,113	-	670,193,295	-	209,993,818
A1	739,516,241	-	739,516,241	-	-
A2	457,101,891	-	457,101,891	-	-
A3	1,182,077,709	-	1,109,452,792	-	72,624,917
Baa1	1,295,646,161	-	1,190,614,709	-	105,031,452
Baa2	1,207,403,542	-	1,053,208,055	-	154,195,487
Baa3	2,167,881,050	5,149,231	1,987,802,086	-	174,929,733
Ba1 or Lower	1,609,989,975	921,691	1,307,510,005	-	301,558,279
Total	$ 17,794,542,959	$ 1,078,557,663	$ 9,085,459,370	$ 6,309,623,460	$ 1,320,902,466

Schedule 3: Foreign Currency Exposure

Foreign Currency Denomination	Investment Type In U.S. Dollar Equivalent							
	Cash and Cash Equivalents	Debt Securities	Equity Securities	Derivatives	Alternative Assets	Open Foreign Exchange Contracts - Net	Total	Percent of Total Investment Balances
AUSTRALIAN DOLLAR	$ 5,814,593	$ 283,407,561	$ 463,755,772	$ -	$ 6,684,142	$ 1,870,915	$ 761,532,983	0.9%
BRAZILIAN REAL	241,453	143,327,117	129,891,969	(176,741)	-	3,997,986	277,281,784	0.3%
CANADIAN DOLLAR	9,819,068	-	658,773,856	-	-	(300,794)	668,292,130	0.8%
SWISS FRANC	371,806	-	995,881,094	-	-	(117,913)	996,134,987	1.2%
CHILEAN PESO	195,069	61,018,898	14,404,446	-	-	(14,254)	75,604,159	0.1%
COLOMBIAN PESO	-	77,889,393	-	-	-	1,130,676	79,020,069	0.1%
DANISH KRONE	537,563	-	177,923,780	-	-	(2,255,040)	176,206,303	0.2%
EURO CURRENCY	20,853,374	-	2,538,737,883	-	2,339,444,681	3,109,561	4,902,145,499	6.0%
POUND STERLING	9,986,316	-	2,022,920,541	-	-	(2,826,246)	2,030,080,611	2.5%
HONG KONG DOLLAR	2,982,101	-	585,919,498	530,050	-	13,805	589,445,454	0.7%
INDONESIAN RUPIAH	126,527	29,769,291	67,837,730	-	-	(49,989)	97,683,559	0.1%
INDIAN RUPEE	360,886	104,219,298	231,436,642	-	-	15,976	336,032,802	0.4%
JAPANESE YEN	25,246,236	-	1,928,347,735	-	-	1,469,306	1,955,063,277	2.4%
SOUTH KOREAN WON	4,472,848	-	308,174,673	(293,723)	-	(1,035,424)	311,318,374	0.4%
MEXICAN PESO (NEW)	1,062,784	85,232,228	86,768,909	-	-	(197,738)	172,866,183	0.2%
MALAYSIAN RINGGIT	747,640	52,792,067	60,578,947	-	-	320,502	114,439,156	0.1%
PHILIPPINE PESO	36,501	29,922,368	27,737,595	-	-	29,359	57,725,823	0.1%
SWEDISH KRONA	2,037,664	-	283,755,179	-	-	630,934	286,423,777	0.3%
SINGAPORE DOLLAR	1,132,587	-	169,868,730	-	-	106,444	171,107,761	0.2%
THAILAND BAHT	1,113,098	43,424,659	68,323,983	-	-	(50,054)	112,811,686	0.1%
TURKISH LIRA	1,032,233	48,882,948	74,941,962	2,829	-	1,252,982	126,112,954	0.2%
NEW TAIWAN DOLLAR	3,142,537	-	208,641,412	(31,115)	-	(510,134)	211,242,700	0.3%
SOUTH AFRICAN RAND	1,556,651	-	128,686,059	-	-	1,189,861	131,432,571	0.2%
OTHER	1,762,013	92,541,149	153,232,192	(179)	-	2,551,829	250,087,004	0.3%
Total Foreign Currency Exposure	$ 94,631,548	$ 1,052,426,977	$ 11,386,540,587	$ 31,121	$ 2,346,128,823	$ 10,332,550	$ 14,890,091,606	18.1%

LABOR AND INDUSTRIES' FUND

EideBailly

CPAs & BUSINESS ADVISORS

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Labor and Industries' Funds of the State of Washington as managed by the Washington State Investment Board (the Labor and Industries' Funds), which comprise the statement of net investment position as of June 30, 2016, and the related statement of changes in net investment position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the investment position of the Labor and Industries' Funds as of June 30, 2016, and the changes in net investment position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Eide Bailly LLP

Boise, Idaho
September 28, 2016

Management Discussion and Analysis

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

The financial statements and footnotes follow this section of the report. The Statement of Net Investment Position provides information on the types of investments and related assets and liabilities of the L&I Funds. This information is summarized in Table 1, which compares the asset, liability, and net investment balances at June 30, 2016, with those at June 30, 2015. The Statement of Changes in Net Investment Position provides information on investment performance and other increases and decreases in the net investment position of the L&I Funds for the year ended June 30, 2016. This information is summarized in Table 2, which compares the financial activities of the L&I Funds for the year ended June 30, 2016, with those of the year ended June 30, 2015. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements of the L&I Funds.

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

Investment Returns Excluding Supplemental Pension Fund	FY 2016	FY 2015
Debt Securities	6.9%	1.4%
Equity Securities	-2.4%	2.6%
Total Investment Return	5.8%	1.5%
Investment Return Supplemental Pension Fund	1.1%	0.8%

LABOR AND INDUSTRIES' FUNDS

As shown in Table 1, the net investment position of the L&I Funds increased by $960.0 million during the fiscal year ended June 30, 2016. Net realized and unrealized gains for the year increased net investment position by $359.4 million. Contributions from L&I increased net investment position by $102.3 million. The remaining increase was interest and other net investment income reinvested in the fund.

Table 1 - Summarized Net Investment Position

	2016	2015	Dollar Change	Percent Change
Cash and Cash Equivalents	$ 193,241,503	$ 135,025,651	$ 58,215,852	43.1%
Debt Securities	13,627,795,982	12,603,336,106	1,024,459,876	8.1%
Equity Securities	1,766,364,291	1,895,745,913	(129,381,622)	-6.8%
Total Investments	**15,587,401,776**	**14,634,107,670**	**953,294,106**	**6.5%**
Collateral Held Under Securities Lending Agreements	114,580,717	68,151,272	46,429,445	68.1%
Investment Receivables - Other	110,141,296	112,360,722	(2,219,426)	-2.0%
Total Assets	**15,812,123,789**	**14,814,619,664**	**997,504,125**	**6.7%**
Obligations Under Securities Lending Agreements	114,580,717	68,151,272	46,429,445	68.1%
Investment Payables - Other	1,109,633	10,064,149	(8,954,516)	-89.0%
Total Liabilities	**115,690,350**	**78,215,421**	**37,474,929**	**47.9%**
Net Investment Position	**$ 15,696,433,439**	**$ 14,736,404,243**	**$ 960,029,196**	**6.5%**

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

- Cash and Cash Equivalents increased by $58.2 million. This balance represents approximately 1 percent of total invested balances and is within policy ranges. Cash can fluctuate within policy targets from year to year, depending on trading volumes and the cash needs of the L&I Funds. Net investment income received from debt securities and cash is invested into money market funds and used within each asset class to reinvest in longer term securities, as the cash becomes available. Contributions of $102.3 million were invested in cash when received, and $(41.2) was transferred to other asset classes for longer term investment. The remaining decrease was income reinvested within the fund net of expenses paid.
- Debt securities increased by $1,024.5 million. Net realized and unrealized gains increased this asset class by $390.1 million. During the current fiscal year, the fixed income portfolio was rebalanced, and approximately $140.9 million was transferred from the cash and equity portfolios. Debt securities traded but not settled by June 30, 2016, decreased debt security balances by $(9.0) million. The remaining increase is from net investment income received and reinvested within the fixed income portfolio. The global low interest rate environment continued in Fiscal Year 2016, due to central bank policies, slow economic growth, and low inflation. Treasury yields moved up and down for the first six months of the fiscal year, then fell for the last six months. For the full fiscal year, long duration treasuries dramatically outperformed short duration ones, as did long duration credits. The Federal Open Markets Committee raised the Fed Funds rate at its December meeting. Fixed income performance was positive for the year. However, the portfolios underperformed their benchmarks due to exposure to emerging markets and commodity-oriented companies.
- Equity securities decreased by $(129.4) million. Net realized and unrealized losses decreased this asset class by $(30.7) million, due to negative investment returns in the public equity markets. During the current fiscal year, the equity portfolio was rebalanced, and approximately $(99.7) million of equity securities were sold and the proceeds were reinvested in debt securities. The remaining increase in equity balances was due to net investment income reinvested in the equity portfolio. Currently, the L&I equity portfolio is split 60/40 between U.S. and non-U.S. equity investments, which resulted in the overall negative equity returns within the portfolio. Overall, the U.S. equity market returned 2.3 percent and the non U.S. market lost (9.7) percent as measured by Morgan Stanley Capital International (MSCI) indexes, which are broad barometers of overall market returns. Economic concerns led to declines in returns over the prior year in both the U.S. and non-U.S. equity markets. The U.S. equity market continued to perform relatively better in fiscal year 2016 versus non U.S. equity markets. During Fiscal Year 2016, the U.S. dollar held its appreciated value due to interest rate differentials, superior U.S. economic growth, and the dollar's safety. Returns from non-U.S. equity markets suffered from local market

declines and the strength of the U.S. dollar. Generally, the local market declines were due to slower Gross Domestic Product (GDP) growth and higher unemployment relative to the U.S. and broadly lower interest rates. The price of oil and several other commodities fell significantly over the second half of 2015 and then largely rebounded in the first half of 2016. In the U.S., value-oriented securities, including those that pay dividends, outperformed growth securities as well as the broader market, with most of that outperformance coming in the first half of 2016.

- Collateral held and obligations under securities lending agreements increased by $46.4 million. Reported collateral balances in the L&I Funds financial statements represent only cash received as collateral and reinvested. Additional securities received as collateral totaled $0.3 million. Overall securities on loan and collateral held increased by $9.4 million and $8.4 million, respectively. This slight increase over the prior fiscal year was due to increased demand for 10 year U.S. Treasury securities held in the L&I funds as investor reacted to volatile equity markets with a flight to quality.
- Other investment payables decreased almost entirely due to open and unsettled security trades at year end. Trading volumes can vary substantially based on the timing of additional cash flows, market movements, and rebalancing of asset classes within a portfolio. Accordingly, there is generally minimal correlation to invested balances.

As shown in Table 2, the net amount contributed by L&I increased by $85.3 million. Net premiums collected by L&I increased due to growth in the number of hours reported by employers, more hours reported by businesses in higher risk classes, and a rate increase in the Medical Aid Account.

Table 2 - Summarized Changes in Net Investment Position

	2016	2015	Dollar Change
Net Investment Income			
Interest, Dividends and Other Investment Income	$ 503,057,404	$ 493,678,690	$ 9,378,714
Net Realized Capital Gains	139,751,217	61,341,713	78,409,504
Unrealized Gains (Losses)	219,601,229	(335,002,888)	554,604,117
Less:			
Investment Expenses	(1,842,654)	(1,986,098)	(143,444)
WSIB Operating Expenses	(2,879,469)	(2,396,807)	482,662
Net Investment Income	**857,687,727**	**215,634,610**	**642,053,117**
Net Amount Contributed	102,341,469	17,030,807	85,310,662
Net Investment Position - Beginning	**14,736,404,243**	**14,503,738,826**	**232,665,417**
Net Investment Position - Ending	**$ 15,696,433,439**	**$ 14,736,404,243**	**$ 960,029,196**

Net investment income increased from the prior fiscal year by $642.1 million, almost entirely due to increases in net realized and unrealized gains due to positive investment returns in the fixed income portfolio. The L&I Funds' equity, fixed income, and total returns are presented in previous pages with market commentary.

The fair value of L&I assets is directly impacted by the returns of the various capital markets within which the WSIB invests. The returns are expected to have a significant effect on financial position and results of operations in the future. However, one of the benefits of the diversification gained by investing across various investment types, as well as broadly within an asset class, is the reduction in aggregate volatility of the total investment portfolio. The WSIB, upon receiving recommendations from L&I staff, WSIB staff, and other investment experts, makes the asset allocation decisions for the L&I assets. The WSIB staff rebalances the L&I Funds' assets as markets fluctuate, pursuant to WSIB policy.

Labor and Industries' Funds Statement of Net Investment Position - June 30, 2016

See notes to financial statements

	Accident Fund	Medical Aid Fund	Pension Reserves Fund	Supplemental Pension Fund	Total	Percent of Total
ASSETS						
Investments:						
CASH AND CASH EQUIVALENTS	$ 53,420,421	$ 45,472,177	$ 62,413,216	$ 31,935,689	$ 193,241,503	1.2%
DEBT SECURITIES						
Mortgage and Other Asset Backed Securities	568,154,637	461,135,272	421,412,641	2,043	1,450,704,593	
Corporate Bonds	3,480,934,474	3,116,066,528	2,695,172,582	39,183,907	9,331,357,491	
U.S. Government and Agency Securities	775,041,203	751,992,953	580,774,846	25,135,950	2,132,944,952	
Foreign Government and Agencies	254,755,798	202,310,632	253,691,462	2,031,054	712,788,946	
Total Debt Securities	5,078,886,112	4,531,505,385	3,951,051,531	66,352,954	13,627,795,982	87.4%
EQUITY SECURITIES						
Commingled Investment Trusts	563,653,543	762,931,304	439,779,444	-	1,766,364,291	
Total Equity Securities	563,653,543	762,931,304	439,779,444	-	1,766,364,291	11.4%
Total Investments	5,695,960,076	5,339,908,866	4,453,244,191	98,288,643	15,587,401,776	100.1%
Collateral Held Under Securities Lending Agreements	88,568,090	-	26,012,627	-	114,580,717	
Investment Earnings Receivable	43,878,861	34,092,879	31,927,016	238,684	110,137,440	
Receivable for Investments Sold	1,626	1,499	731	-	3,856	
Total Assets	5,828,408,653	5,374,003,244	4,511,184,565	98,527,327	15,812,123,789	
LIABILITIES						
Obligations Under Securities Lending Agreements	88,568,090	-	26,012,627	-	114,580,717	
Accounts Payable	40,915	36,811	23,669	8,738	110,133	
Payable for Investments Purchased	-	-	-	999,500	999,500	
Total Liabilities	88,609,005	36,811	26,036,296	1,008,238	115,690,350	
NET INVESTMENT POSITION	$ 5,739,799,648	$ 5,373,966,433	$ 4,485,148,269	$ 97,519,089	$ 15,696,433,439	

Labor and Industries' Funds Statement of Changes in Net Investment Position - Year Ended June 30, 2016

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	$ 198,556,506	$ 156,705,727	$ 146,664,297	$ 1,130,874	$ 503,057,404
Net Realized Capital Gains	64,099,839	55,391,738	20,241,577	18,063	139,751,217
Unrealized Gains	76,937,752	44,267,090	98,248,855	147,532	219,601,229
Less:					
Investment Expenses	(640,476)	(599,029)	(506,876)	(96,273)	(1,842,654)
WSIB Operating Expenses	(1,058,743)	(983,506)	(812,591)	(24,629)	(2,879,469)
Net Investment Income	337,894,878	254,782,020	263,835,262	1,175,567	857,687,727
Net Amount Contributed (Withdrawn)	4,699,743	81,711,506	46,965,591	(31,035,371)	102,341,469
Increase in Net Investment Position	342,594,621	336,493,526	310,800,853	(29,859,804)	960,029,196
Net Investment Position - June 30, 2015	5,397,205,027	5,037,472,907	4,174,347,416	127,378,893	14,736,404,243
Net Investment Position - June 30, 2016	$ 5,739,799,648	$ 5,373,966,433	$ 4,485,148,269	$ 97,519,089	$ 15,696,433,439

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.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments and are comprised of short term investment funds which are valued at cost. Accordingly, these investments are excluded from the fair value schedule in Note 6 to the basic financial statements.

Valuation of Investments

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

Revenue Recognition

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

Securities Lending

The collateral received under securities lending agreements, where the funds have the ability to spend, pledge, or sell the collateral without borrower default, is included in the Statement of Net Investment Position. Liabilities resulting from these transactions are also recorded. Additionally, costs associated with securities lending transactions, including broker commissions and lending fees paid to the custodian bank, are reported as investment expenses in the accompanying financial statements. The Statement of Net Investment Position does not include detailed holdings of securities lending collateral by investment classification. Securities lending income received by the L&I Funds during Fiscal Year 2016 was $1.1 million. Securities lending expenses during the fiscal year totaled $0.1 million.

Use of Estimates

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

Contributions and Withdrawals

Contributions and withdrawals are recorded when received or paid.

Note 2. Fees and Expenses

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

Note 3. Deposit and Investment Risk Disclosures

Custodial Credit Risk

Custodial credit risk is the risk that in the event a depository institution or counterparty fails, the L&I Funds will not be able to recover the value of its deposits, investments, or collateral securities. As of June 30, 2016, investment securities (excluding cash, cash equivalents, and repurchase agreements held as securities lending collateral) are registered and held in the name of the WSIB, for the benefit of the L&I Funds and are not exposed to custodial credit risk. There are no general policies relating to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. The risk is managed within the portfolios using effective duration, which is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Increases in prevailing interest rates generally translate into decreases in fair values of fixed income investments. As of June 30, 2016, the L&I Funds' portfolio durations were within the duration targets documented in Note 7.

Schedule 1 and 2 provide information about the interest rate risks associated with the L&I Funds' investments, as of June 30, 2016. The schedules display various asset classes held by maturity in years, effective durations, and credit ratings. All debt securities are reported using the average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity for these securities, taking into account possible prepayments of principal.

Credit Risk

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

The L&I Funds' rated debt investments as of June 30, 2016, were rated by Moody's and/or an equivalent national rating organization. Investment types with corresponding ratings are presented in Schedule 2, using the Moody's rating scale.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The L&I Funds' policy states that corporate fixed income issues cost shall not exceed 3 percent of the Fund's fair value at the time of purchase, nor shall its fair value exceed 6 percent of the Fund's fair value at any time. There was no concentration of credit risk, as of June 30, 2016.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The L&I Funds do not have a formal policy to limit foreign currency risk. The only securities held by the L&I Funds with foreign currency exposure at June 30, 2016, consists of $650.0 million (excludes U.S. dollar denominated securities) invested in international commingled equity index funds. Foreign currency exposure for these commingled equity index funds are presented in Schedule 3.

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, 2016, was approximately $112.0 million. The securities on loan remain in the Statement of Net Investment Position in their respective categories. At June 30, 2016, cash collateral received totaling $114.6 million is reported as a securities lending obligation, and the fair value of the re-invested cash collateral totaling $114.6 million is reported as security lending collateral in the Statement of Net Investment Position. Securities received as collateral where the L&I Funds do not have the ability to pledge or sell the collateral, unless the borrower defaults, are not reported as assets and liabilities in the Statement of Net Investment Position. Total securities received as collateral at June 30, 2016, was $0.3 million.

Debt securities were loaned and collateralized by the L&I Funds' agent with cash and U.S. Government or U.S. Agency Securities, including U.S. Agency Mortgage Backed Securities (exclusive of letters of credit). When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest of the loaned securities. The following table summarizes the securities held from reinvestment of cash collateral and securities received as collateral at June 30, 2016.

In Millions:	Cash Collateral	Non Cash Collateral	Total
Mortgage Backed Securities	$ -	$ 0.3	$ 0.3
Repurchase Agreements	45.5	-	45.5
Yankee CD	25.5	-	25.5
Commercial Paper	19.4	-	19.4
Cash Equivalents and Other	24.2	-	24.2
Total Collateral Held	**$ 114.6**	**$ 0.3**	**$ 114.9**

During Fiscal Year 2016, securities lending transactions could be terminated on demand by either the L&I Funds or the borrower. As of June 30, 2016, the cash collateral held had an average duration of 17.2 days and an average weighted final maturity of 73.4 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 2016, there were no significant violations of legal or contractual provisions, no failures by any borrowers to return loaned securities, or to pay distributions thereon. Further, during Fiscal Year 2016, the L&I Funds incurred no losses resulting from a default by either the borrowers or the securities lending agents.

Note 5. Derivatives

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

Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of use and holdings of derivative securities by passive equity index fund managers is unavailable. At June 30, 2016, the only derivative securities held directly by the L&I Funds were collateralized mortgage obligations of $922.5 million.

Note 6. Fair Value

GASB Statement No. 72, Fair Value Measurement and Application, (Statement 72) specifies a hierarchy of valuation classifications based on whether the inputs to the valuation techniques used in each valuation classification are observable or unobservable. These classifications are summarized in three broad levels listed below:

- Level 1 – Unadjusted quoted prices for identical instruments in active markets.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability. either directly or indirectly, including quoted prices for similar assets or liabilities in markets that are active; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs other than quoted prices that are observable for the assets or liabilities (such as exchange rates, financing terms, interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks, and default rates).
- Level 3 – Valuations derived from valuation techniques in which significant inputs or significant value drivers are unobservable.

Inputs used to measure fair value might fall in different levels of the fair value hierarchy; in which case, the L&I Funds defaults to the lowest level input that is significant to the fair value measurement of each investment, with Level 3 being the lowest level. The determination of fair value of an investment within the hierarchy of classifications above is not necessarily an indication of the risk or liquidity associated with the investments. In determining the appropriate levels, the L&I Funds performed a detailed analysis of the assets and liabilities that are subject to Statement 72. Valuation policies and procedures are managed by the Investment Accounting and Administration unit of the WSIB, which regularly monitors fair value measurements. Fair value measurements are prepared and reviewed monthly, and any third party valuations are reviewed for reasonableness and compliance with relevant accounting standards.

The L&I Funds receive fair value prices for publicly traded debt securities directly from their custodian bank. These prices are obtained from reputable pricing sources which include but are not limited to Barclays and Interactive Data Corporation. The custodian bank performs the following tolerance and review checks on the pricing data on a daily basis:

- Researches price changes from the previous day of 2 to 5 percent or greater, with corroborating evidence required from the primary pricing vendor.
- Prices unchanged in excess of 10 days are sent to the appropriate vendor for review and verification.

The L&I Funds invest in Collective Investment Trusts operated by a bank or trust company and groups assets contributed into a commingled investment fund. These "mutual fund" type investments are not available to the general public and are open-ended funds, which issues or reduces shares for contributions and redemptions from the fund. The commingled fund manager determines a periodic price per unit of the collective trust by obtaining fair values of the underlying holdings using reputable pricing sources and computing an overall net asset value per share.

The following table presents fair value measurements as of June 30, 2016:

		Fair Value Measurements Using:		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
INVESTMENTS				
DEBT SECURITIES				
Mortgage and Other Asset Backed Securities	$ 1,450,704,593	$ -	$ 1,450,704,593	$ -
Corporate Bonds	9,331,357,491	-	9,331,357,491	-
US and Foreign Government and Agency Securities	2,845,733,898	-	2,845,733,898	-
Total Debt Securities	13,627,795,982	-	13,627,795,982	-
Total Investments By Fair Value Level	13,627,795,982	-	13,627,795,982	-
INVESTMENTS MEASURED AT NET ASSET VALUE				
Commingled Equity Investment Trusts	1,766,364,291			
Total Investments Measured at Fair Value	$ 15,394,160,273			
OTHER ASSETS (LIABILITIES) AT FAIR VALUE				
Collateral Held Under Securities Lending Agreements	$ -	$ -	$ 114,580,717	$ -
Obligations Under Securities Lending Agreements	-	-	(114,580,717)	-
Total Other Assets (Liabilities) Measured at Fair Value	$ -	$ -	$ -	$ -

Debt Securities (Level 2)

Investments classified as level 2 in the above table were comprised of publicly traded debt securities. Publicly traded debt securities are sourced from reputable pricing vendors, using models that are market-based measurements representing their good faith opinion as to the exit value of a security, in an orderly transaction under current market conditions. Such models take into account quoted prices, nominal yield spreads, benchmark yield curves, prepayment speeds, and other market corroborated inputs.

Collective Investment Trust Funds (Investments Measured at Net Asset Value)

The L&I Funds invest in 7 separate Collective Investment Trust Funds (Fund). Each Fund determines a fair value by obtaining the values of the underlying holdings, using reputable pricing sources and computing an overall net asset value per share. The holdings within each fund are publicly traded equity securities.

Six Funds are passively managed to collectively approximate the capitalization weighted total rates of return of the Morgan Stanley Capital International All Country World Ex U.S. Investable Market Index (MSCI ACW Ex U.S. IMI). Each Fund has monthly openings and contributions and withdrawals can be made on each opening date. The Fund manager, at its discretion, reserves the right to delay the processing of deposits and withdrawals from each Fund in order to ensure that securities transactions will be carried out in an orderly manner. The Fund may suspend valuation and withdrawal rights when, at the Fund managers sole discretion, prevailing market conditions or other circumstances, events, or occurrences make the disposition or valuation of investments impracticable or inadvisable, or when the Fund manager otherwise considers such action to be in the best interests of the participants, or believes that such action would assist in eliminating or mitigating an adverse effect on the Fund or participants.

One Fund is passively managed to approximate the capitalization weighted total rates of return of the Morgan Stanley Capital International U.S. Investable Market Index (MSCI US IMI). The Fund has daily openings and contributions, and withdrawals can be made on any business day. The Fund manager, at its discretion, may require withdrawal proceeds to be made partially or wholly in kind. Under certain circumstances the Fund manager may choose to suspend valuation and/or the right to make contributions and withdrawals from the Fund. Such circumstances include actual or anticipated closure, restriction, or suspension of trading activity in any markets or exchanges where the Fund investments are traded, where the purchase, sale, or pricing of the Fund's investments would not be reasonably practicable or advisable, or where suspending contributions or withdrawals would be in the best interest of the Fund or participants.

Note 7. Summary of Investment Policy

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

Strategic Objectives

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

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

Performance Objectives

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

Portfolio Constraints

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

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

Asset Allocation

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

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

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

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

Asset Class Structure

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

Equity

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

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

Fixed Income

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

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.

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

Permissible Fixed Income Investments

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

Sector Allocations

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

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

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

Schedule 1: Schedule of Maturities and Credit Ratings

Investment Type	Total Fair Value	Maturity: Less than 1 year	Maturity: 1-5 years	Maturity: 6-10 years	Maturity: More than 10 years	Effective Duration	Credit Rating
Mortgage and Other Asset Backed Securities	$ 1,450,704,593	$ 198,660,492	$ 1,118,070,684	$ 78,752,526	$ 55,220,891	3.3	Schedule 2
Corporate Bonds	9,331,357,491	1,082,926,426	2,678,108,981	2,239,180,694	3,331,141,390	7.6	Schedule 2
U.S. Government and Agency Securities	2,132,944,952	80,050,599	732,974,945	718,903,861	601,015,547	9.7	Aaa
Foreign Government and Agencies	712,788,946	122,946,204	365,236,008	179,747,509	44,859,225	4.8	Schedule 2
	13,627,795,982	$ 1,484,583,721	$ 4,894,390,618	$ 3,216,584,590	$ 4,032,237,053	7.3*	
Investments Not Required to be Categorized							
Commingled Investment Trusts	1,766,364,291						
Cash and Cash Equivalents	193,241,503						
Total Investments Not Categorized	1,959,605,794						
Total L&I Funds Investments	$ 15,587,401,776						

* Excludes cash and cash equivalents

Schedule 2: Additional Credit Ratings Disclosure

Moodys Equivalent Credit Rating	Mortgage and Other Asset Backed Securities	Corporate Bonds	Foreign Government and Agency Securities
Aaa	$ 1,428,590,196	$ 338,020,083	$ 161,976,036
Aa1	22,114,397	30,035,670	-
Aa2	-	85,756,390	144,978,479
Aa3	-	1,193,131,734	287,956,684
A1	-	1,275,244,920	35,937,465
A2	-	1,040,920,154	-
A3	-	1,595,454,125	-
Baa1	-	1,282,335,424	28,502,192
Baa2	-	1,053,496,833	-
Baa3	-	1,014,163,258	53,438,090
Ba1 or Lower	-	422,798,900	-
Total	$ 1,450,704,593	$ 9,331,357,491	$ 712,788,946

Schedule 3: Foreign Currency Exposure

Foreign Currency Denomination	Equity Securities	Percent of Total Investments
AUSTRALIAN DOLLAR	$ 33,460,171	0.2%
BRAZILIAN REAL	10,131,635	0.1%
CANADIAN DOLLAR	46,214,060	0.3%
SWISS FRANC	40,760,308	0.3%
DANISH KRONE	8,825,626	0.1%
EURO CURRENCY	133,050,237	0.9%
POUND STERLING	92,193,539	0.6%
HONG KONG DOLLAR	45,084,616	0.3%
INDONESIAN RUPIAH	4,008,610	Trace
NEW ISRAELI SHEQEL	3,127,621	Trace
INDIAN RUPEE	13,154,492	0.1%
JAPANESE YEN	114,864,014	0.7%
SOUTH KOREAN WON	22,923,252	0.1%
MEXICAN PESO (NEW)	6,036,060	Trace
MALAYSIAN RINGGIT	4,522,528	Trace
NORWEGIAN KRONE	3,591,556	Trace
PHILIPPINE PESO	2,261,520	Trace
SWEDISH KRONA	14,626,390	0.1%
SINGAPORE DOLLAR	6,633,930	0.1%
THAILAND BAHT	3,668,404	Trace
NEW TAIWAN DOLLAR	19,255,119	0.1%
SOUTH AFRICAN RAND	10,575,905	0.1%
MISCELLANEOUS FOREIGN CURRENCIES	11,053,405	0.1%
Total Foreign Currency Exposure	$ 650,022,998	4.2%

PERMANENT FUNDS

EideBailly
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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Permanent Funds (which are comprised of the American Indian Scholarship Endowment, Agricultural School, Normal School, Common School, Scientific School, and State University) of the State of Washington as managed by the Washington State Investment Board (the Permanent Funds), which comprise the statement of net investment position as of June 30, 2016, and the related statement of changes in net investment position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the investment position of the Permanent Funds as of June 30, 2016, and the changes in net investment position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Eide Bailly LLP

Boise, Idaho
September 28, 2016

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 departments. This section of the report represents only the Permanent Funds portion.

The financial statements and footnotes follow this section of the report. The Statement of Net Investment Position provides information on the types of investments, assets, and liabilities of the Permanent Funds. This information is summarized in Table 1, which compares the asset, liability, and net investment balances at June 30, 2016, with those at June 30, 2015. The Statement of Changes in Net Investment Position provides information on investment performance and other increases and decreases in the net investment position of the Permanent Funds, for the year ended June 30, 2016. This information is summarized in Table 2, which compares the financial activities of the Permanent Funds for the year ended June 30, 2016, with those of the year ended June 30, 2015. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements of the Permanent Funds.

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

Investment Returns by Asset Class	FY 2016	FY 2015
Debt Securities	6.3%	1.8%
Equity Securities	1.9%	5.1%

Investment Returns by Fund	FY 2016	FY 2015
American Indian Scholarship Endowment (AIS)	6.1%	1.8%
Agricultural School	5.0%	2.9%
Normal School	5.0%	2.9%
Common School	5.0%	2.9%
Scientific School	5.0%	2.9%
State University	5.0%	2.9%

As shown in Table 1, the net investment position of the Permanent Funds increased by $29.0 million during the fiscal year ended June 30, 2016. Contributions from the Department of Natural Resources (DNR) and Higher Education Coordinating Board increased net investment position by $16.0 million, all of which were invested in fixed income securities. Net realized and unrealized gains increased net investment position by $13.0 million. Net investment income received was $35.7 million and was also distributed to beneficiary funds. Accordingly, this had no impact on the net investment position as of June 30, 2016. The remaining increase represents other net investment income held for distribution to beneficiaries within each fund.

Table 1 - Summarized Net Investment Position

	2016	2015	Dollar Change	Percent Change
Cash and Cash Equivalents	$ 2,078,830	$ 1,573,156	$ 505,674	32.1%
Debt Securities	710,365,772	662,871,814	47,493,958	7.2%
Equity Securities	299,935,467	318,916,677	(18,981,210)	(6.0%)
Total Investments	**1,012,380,069**	**983,361,647**	**29,018,422**	**3.0%**
Earnings Receivable	4,555,380	3,207,192	1,348,188	42.0%
Total Assets	**1,016,935,449**	**986,568,839**	**30,366,610**	**3.1%**
Distributions Payable	(4,555,310)	(3,207,257)	1,348,053	42.0%
Net Investment Position	**$ 1,012,380,139**	**$ 983,361,582**	**$ 29,018,557**	**3.0%**

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

- Cash and cash equivalents increased by $.5 million due to contributions received that were held in cash and not reinvested in longer term securities. This cash balance represents less than 1 percent of total invested balances and is within the policy range. Cash is held to provide for distributions to beneficiary funds and can fluctuate from period to period.
- Debt securities increased by $47.5 million. Net realized and unrealized gains for the fiscal year totaled $17.7 million, which increased fixed income invested balances. Contributions received increased debt securities by $15.4 million, and equity sale proceeds of $14.4 million were used to purchase fixed income securities which increased this asset class. Net earnings reinvested in the fund and subsequently distributed to the beneficiary funds, totaled $25.0 million. The global low interest rate environment continued in Fiscal Year 2016, due to central bank policies, slow economic growth, and low inflation. Treasury yields moved up and down for the first six months of the fiscal year, then fell for the last six months. For the full fiscal year, long duration treasuries dramatically outperformed short duration ones, as did long duration credits. The Federal Open Markets Committee raised the Fed Funds rate at its December meeting. Fixed income performance was positive for the year and outperformed its benchmark due to duration management and credit selection.
- Equity securities decreased by $(19.0) million. Net realized and unrealized losses decreased equity securities by $(4.6) million. Proceeds from the sale of equity securities used to purchase fixed income investments decreased this asset class by $(14.4) million. Net earnings from equity securities received and subsequently distributed to the beneficiary funds totaled $10.8 million. The dividend yield of 3.5 percent was the main driver behind the positive equity return of 1.9 percent during the current fiscal year. The Commingled Monthly Equity Fund (CMEF) is invested in U.S. equity securities, which over the long term has provided inflation protection, and is invested in a strategy that aims to earn higher dividend yield to augment distributions to the beneficiary funds. The Russell 3000, a broad barometer of the overall U.S. market, returned 2.1 percent, which outpaced most Non-U.S. equity markets. During fiscal year 2016, the U.S. dollar held its appreciated value due to interest rate differentials, superior U.S. economic growth, and the dollar's safety. The price of oil and several other commodities fell significantly over the second half of 2015 and then largely rebounded in the first half of 2016. In the U.S., value-oriented securities, including those that pay dividends, outperformed growth securities as well as the broader market, with most of that outperformance coming in the first half of 2016.

- 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 to beneficiary funds, and fluctuations in balances from period to period are normal depending on the timing of income payments.

As shown in Table 2, net investment income increased by $20.8 million, due almost entirely to the increases in net realized and unrealized gains and losses within the fixed income portfolio. Overall returns by asset class and individual Permanent Fund are in the previous pages.

Table 2 - Summarized Changes in Net Investment Position

	2016	2015	Dollar Change	Percent Change
Net Investment Income				
Interest, Dividends and Other Investment Income	$ 35,856,552	$ 38,808,052	$ (2,951,500)	(7.6%)
Realized and Unrealized Gains (Losses)	13,052,246	(10,711,799)	23,764,045	(221.8%)
Less:				
Investment Fees	(190,937)	(161,479)	29,458	18.2%
Net Investment Income	**48,717,861**	**27,934,774**	**20,783,087**	74.4%
Contributions	15,969,000	15,034,000	935,000	6.2%
Distributions to Beneficiaries	(35,668,304)	(38,645,099)	(2,976,795)	(7.7%)
Net Investment Position - Beginning	**983,361,582**	**979,037,907**	**4,323,675**	0.4%
Net Investment Position - Ending	**$ 1,012,380,139**	**$ 983,361,582**	**$ 29,018,557**	3.0%

Contributions received from DNR increased by $0.9 million, due to a higher volume of timber sales and other natural resources during the current fiscal year.

Interest, dividends, and other investment income decreased during the current fiscal year, due mainly to timing of income received and lower coupon payments rates within the debt portfolio. This translated to a corresponding decrease in distributions to the beneficiaries. The policies for the CMEF and CMBF requires monthly distributions of cash basis income, and accordingly, fluctuations from year to year would be normal based on the timing of income payments, as well as, changes in dividend yields and interest rates.

The fair value of the Permanent Funds' assets is directly impacted by the returns of the various capital markets within which the WSIB invests. The returns are expected to have a significant effect on financial position and results of operations in the future. However, one of the benefits of diversification gained by investing across various investment types, as well as broadly within an asset class, is the reduction in aggregate volatility of the total investment portfolio.

Permanent Funds Statement of Net Investment Position - June 30, 2016

See notes to financial statements

	American Indian Scholarship Endowment	Agricultural School	Normal School	Common School	Scientific School	State University	Total	Percent of Total
ASSETS								
Investments:								
Cash and Cash Equivalents	$ 13,792	$ 683,800	$ 612,017	$ 99,254	$ 664,978	$ 4,989	$ 2,078,830	0.2%
Commingled Monthly Bond Fund	347,328	159,107,234	192,271,110	151,165,262	181,823,294	25,651,544	710,365,772	70.2%
Commingled Monthly Equity Fund	-	68,822,930	80,406,860	63,044,729	76,811,482	10,849,466	299,935,467	29.6%
Total Investments	361,120	228,613,964	273,289,987	214,309,245	259,299,754	36,505,999	1,012,380,069	100.0%
Investment Earnings Receivable	1,660	1,026,796	1,229,985	966,193	1,166,204	164,542	4,555,380	
Total Assets	362,780	229,640,760	274,519,972	215,275,438	260,465,958	36,670,541	1,016,935,449	
LIABILITIES								
Distributions and Other Payables	1,660	1,026,694	1,229,884	966,431	1,166,098	164,543	4,555,310	
NET INVESTMENT POSITION	$ 361,120	$ 228,614,066	$ 273,290,088	$ 214,309,007	$ 259,299,860	$ 36,505,998	$ 1,012,380,139	

Permanent Funds Statement of Changes in Net Investment Position - Year Ended June 30, 2016

See notes to financial statements

	American Indian Scholarship Endowment	Agricultural School	Normal School	Common School	Scientific School	State University	Total
Net Investment Income							
Investment Income:							
Interest, Dividends and Other Investment Income	$ 12,337	$ 8,015,899	$ 9,716,425	$ 7,644,850	$ 9,169,992	$ 1,297,049	$ 35,856,552
Net Realized Capital Gains	-	1,374,166	1,683,605	1,974,976	1,295,035	267,868	6,595,650
Unrealized Gains	8,673	1,666,787	1,760,389	783,360	2,040,795	196,592	6,456,596
Less:							
Investment Expenses	(25)	(739)	(356)	(207)	(716)	(33)	(2,076)
WSIB Operating Expenses	(71)	(42,145)	(51,228)	(40,281)	(48,302)	(6,834)	(188,861)
Net Investment Income	20,914	11,013,968	13,108,835	10,362,698	12,456,804	1,754,642	48,717,861
Other Changes in Net Investment Position							
Contributions	-	6,905,000	2,381,000	1,525,000	4,795,000	363,000	15,969,000
Withdrawals and Distributions	(15,435)	(7,972,861)	(9,664,677)	(7,604,342)	(9,120,808)	(1,290,181)	(35,668,304)
Increase in Net Investment Position	5,479	9,946,107	5,825,158	4,283,356	8,130,996	827,461	29,018,557
Net Investment Position - June 30, 2015	355,641	218,667,959	267,464,930	210,025,651	251,168,864	35,678,537	983,361,582
Net Investment Position - June 30, 2016	$ 361,120	$ 228,614,066	$ 273,290,088	$ 214,309,007	$ 259,299,860	$ 36,505,998	$ 1,012,380,139

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

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

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

Basis of Accounting

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

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments and are comprised of short term investment funds which are valued at cost. Accordingly, these investments are excluded from the fair value schedule in Note 6 to the basic financial statements.

Valuation of Investments

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

Revenue Recognition

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

Contributions and Withdrawal Policy

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

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

The collateral received under securities lending agreements, where the funds have the ability to spend, pledge, or sell the collateral without borrower default, is included in the CMBF and CMEF net investment position. Liabilities resulting from these transactions are also included in each fund's net investment position. Additionally, costs associated with securities lending transactions, including broker rebates and investment management fees paid, are part of the CMBF and CMEF and are not reported directly by the Permanent Funds. Securities lending income received by the CMBF and CMEF during Fiscal Year 2016 was $343,254. Securities lending expenses during the fiscal year totaled $115,617.

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

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

Note 3. Deposit and Investment Risk Disclosures
Custodial Credit Risk
Custodial credit risk is the risk that in the event a depository institution or counterparty fails, the Permanent Funds will not be able to recover the value of its deposits, investments, or collateral securities. As of June 30, 2016, investment securities (excluding cash and cash equivalents and repurchase agreements held as securities lending collateral) are registered and held in the name of the WSIB, for the benefit of the Permanent Funds and are not exposed to custodial credit risk. There are no general policies relating to custodial credit risk.

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

Schedule 1 and 2 provides information about the interest rate risks associated with the CMBF investments, as of June 30, 2016. The schedules display various asset classes held by maturity in years, effective durations, and credit ratings. Fixed income securities are reported using the average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity for these securities, taking into account possible prepayments of principal.

Credit Risk

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

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Permanent Funds' policy states that the cost of corporate fixed income issues 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, 2016.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Permanent Funds have no formal policy to limit foreign currency risk. The only foreign securities held by the CMBF and CMEF are traded and denominated in U.S. dollars. The Permanent Funds had no investments with foreign currency risk exposure at June 30, 2016.

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 CMBF and CMEF 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, 2016, the fair value of the securities on loan in the CMEF and CMBF was approximately $50.7 million. The securities on loan are reported in Schedules 1 and 3 in their respective categories. At June 30, 2016, cash collateral received totaling $11.9 million was reported as a securities lending obligation, and the fair value of the re-invested cash collateral totaling $11.9 million was reported as security lending collateral in Schedule 1 and 3. Securities received as collateral where the Permanent Funds do not have the ability to pledge or sell the collateral, unless the borrower defaults, are not reported as assets and liabilities in Schedule 1 and 3.

Debt and equity securities were loaned and collateralized by the Permanent Funds' agent, with cash and U.S. Government or U.S. Agency Securities, including U.S. Agency Mortgage Backed Securities (exclusive of letters of credit). When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest of the loaned securities. The following table summarizes the securities held from reinvestment of cash collateral and securities received as collateral at June 30, 2016.

In Millions:	Cash Collateral	Non Cash Collateral	Total
Mortgage Backed Securities	$ -	$ 9.9	$ 9.9
Repurchase Agreements	4.7	-	4.7
Yankee CD	2.7	-	2.7
Commercial Paper	2.0	-	2.0
US Treasuries	0.1	30.0	30.1
Cash Equivalents and other	2.4	-	2.4
Total Collateral Held	**$ 11.9**	**$ 39.9**	**$ 51.8**

During Fiscal Year 2016, securities lending transactions could be terminated on demand by either the Permanent Funds or the borrower. As of June 30, 2016, the collateral held had an average duration of 17.2 days and an average weighted final maturity of 73.4 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 2016, there were no significant violations of legal or contractual provisions, no failures by any borrowers to return loaned securities or to pay distributions thereon. During Fiscal Year 2016, the Permanent Funds incurred no losses resulting from a default by either the borrowers or the securities lending agents.

Note 5. Derivatives

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

At June 30, 2016, the only derivative securities held directly by the Permanent Funds' CMBF were collateralized mortgage obligations of $30.5 million.

Note 6. Fair Value

GASB Statement No. 72, Fair Value Measurement and Application, (Statement 72) specifies a hierarchy of valuation classifications based on whether the inputs to the valuation techniques used in each valuation classification are observable or unobservable. These classifications are summarized in three broad levels listed below:

- Level 1 – Unadjusted quoted prices for identical instruments in active markets.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in markets that are active; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs other than quoted prices that are observable for the assets or liabilities (such as exchange rates, financing terms, interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks, and default rates).
- Level 3 – Valuations derived from valuation techniques in which significant inputs or significant value drivers are unobservable.

The Permanent Fund obtains exposure to debt and equity markets through commingled investment funds managed by the WSIB. Accordingly, the securities held are measured at net asset value and not categorized by Statement 72 hierarchy of valuation classifications detailed above. Valuation policies and procedures are managed by the Investment Accounting and Administration unit of the WSIB, which regularly monitors fair value measurements. Staff compute month end fair values of each Fund. Participants are allowed to contribute and withdraw on the monthly valuation date. The net asset value per share for the CMEF and CMBF is computed from prices obtained from the custodian bank for all of the underlying holdings. These prices are obtained from reputable pricing sources which include, but are not limited to, Thomson Reuters, Barclays, and Interactive Data Corporation. The custodian bank performs the following tolerance and review checks on the pricing data on a daily basis:

Publicly Traded Equity

- Comparison of primary pricing sources to a secondary source with a zero tolerance threshold.
- Researches price changes from the previous day of 10 percent or greater with verification to secondary sources.
- Researches price changes from the previous day in excess of 20 percent by reviewing market related company news and corporate actions.
- Prices unchanged in excess of 5 days requires verification that there is no market status change.

Fixed Income

- Researches price changes from the previous day of 2 to 5 percent or greater with corroborating evidence required from the primary pricing vendor.
- Prices unchanged in excess of 10 days are sent to the appropriate vendor for review and verification.

The following table presents investments measured at fair market value at June 30, 2016:

	Fair Value
INVESTMENTS - PERMANENT FUNDS	
INVESTMENTS MEASURED AT NET ASSET VALUE	
Commingled Monthly Bond Fund	$ 710,365,772
Commingled Monthly Equity Fund	299,935,467
Total Investments at Net Asset Value	1,010,301,239
Total Investments Measured at Fair Value	$ 1,010,301,239

Commingled Investment Funds (Investments Measured at Net Asset value)

The CMBF and CMEF are invested in publicly traded debt and equity securities and are actively managed to preserve the fund's capital, consistent with the desire to emphasize high current yield to maturity opportunities and to achieve the highest return possible at a prudent level of risk. The return benchmark for the CMEF and CMBF is the Russell 3000 Index and the Barclays Capital Aggregate Index, respectively. With the exception AIS, no other permanent fund may withdraw other than realized income from the fund. Legal requirements for the state of Washington require corpus balances be preserved. The AIS may withdraw funds on each monthly valuation date. Cash basis income is distributed to all beneficiaries monthly.

Note 7. 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 Funds' investments are to be managed to preserve capital consistent with the desire to emphasize high current yield to maturity opportunities and to achieve the highest return possible at a prudent level of risk.

The strategic objectives include:

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

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

Investment Performance Objectives

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

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

Risk Tolerance

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

Portfolio Constraints

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

Permissible Investments

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

- Any WSIB managed fund that meets a fund's investment objectives and its permissible investments constraints.
- U.S. and non-U.S. public equity.
- Investment Grade Fixed Income. Investment grade is defined using the method employed by the Barclays Capital Global Family of Fixed Income Indices. Although fixed income securities that are rated below investment grade may not be purchased, portfolio holdings that are downgraded to those levels or are no longer rated may continue to be held.

Permissible Fixed Income Market Segments:

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

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

Fixed Income Sector Allocations

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

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

Duration Target

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

Asset Allocation and Benchmarking

The Agricultural School 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%
US Equities (Russell 3000)	30%	0%-34%

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

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

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

Investment Type	Total Fair Value	Maturity: Less than 1 year	Maturity: 1-5 years	Maturity: 6-10 years	Maturity: More than 10 years	Effective Duration	Credit Rating
Mortgage and Other Asset Backed Securities	$ 51,283,506	$ 12,663,129	$ 36,321,959	$ 2,298,418	$ -	2.5	Schedule 2
Corporate Bonds	262,318,064	20,067,212	108,734,362	57,904,758	75,611,732	7.2	Schedule 2
U.S. Government and Agency Securities	340,381,877	43,628,579	168,768,546	73,246,503	54,738,249	6.4	Aaa
Foreign Government and Agency Securities	31,600,620	5,121,645	10,461,586	16,017,389	-	5.3	Schedule 2
Total Debt Securities	685,584,067	$ 81,480,565	$ 324,286,453	$ 149,467,068	$ 130,349,981	6.4 *	
Investments Not Required to be Categorized:							
Cash and Cash Equivalents	23,796,330						
Collateral Held Under Securities Lending Agreements	522,964						
Investment Earnings Receivable	4,371,513						
Total Commingled Bond Fund Assets	714,274,874						
Distributions and other payables	(3,386,138)						
Obligations Under Securities Lending Agreements	(522,964)						
CMBF Net Investment Position - June 30, 2016	$ 710,365,772						

* Duration excludes cash balances

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

Moody's Credit Rating	Mortgage and Other Asset Backed Securities	Corporate Bonds	Foreign Government and Agency Securities
Aaa	$ 51,252,834	$ 10,058,075	$ 5,157,632
Aa1	-	-	-
Aa2	30,672	5,171,650	5,426,632
Aa3	-	26,389,904	15,894,711
A1	-	42,731,022	5,121,645
A2	-	56,410,821	-
A3	-	72,004,281	-
Baa1	-	29,174,971	-
Baa2	-	15,178,740	-
Baa3	-	-	-
Ba1 or Lower	-	5,198,600	-
Total	$ 51,283,506	$ 262,318,064	$ 31,600,620

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

Classification		
Cash and Cash Equivalents	$	1,835,426
Common Stock		279,140,675
Real Estate Investment Trusts		19,425,529
Income and Other Receivables		754,927
Collateral Held Under Securities Lending Agreements		11,406,975
Distributions and Other Payables		(1,221,090)
Obligations Under Securities Lending Agreements		(11,406,975)
Net Investment Position June 30, 2016	$	299,935,467

GUARANTEED EDUCATION TUITION FUND

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Guaranteed Education Tuition Fund of the State of Washington as managed by the Washington State Investment Board (the Guaranteed Education Tuition Fund), which comprise the statement of net investment position as of June 30, 2016, and the related statement of changes in net investment position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the investment position of the Guaranteed Education Tuition Fund as of June 30, 2016, and the changes in net investment position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Eide Bailly LLP

Boise, Idaho
September 28, 2016

Management Discussion and Analysis

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

The financial statements and footnotes follow this section of the report. The Statement of Net Investment Position provides information on the types of investments and related liabilities of the GET Fund. This information is summarized in Table 1, which compares the asset, liability, and net investment balances at June 30, 2016, with those at June 30, 2015. The Statement of Changes in Net Investment Position provides information on investment performance and other increases and decreases in the net investment position of the GET Fund for the year ended June 30, 2016. This information is summarized in Table 2, which compares the financial activities of the GET Fund for the year ended June 30, 2016, with those of the year ended June 30, 2015. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements of the GET Fund.

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

Investment Returns by Asset Class	FY 2016	FY 2015
Cash and Cash Equivalents	0.2%	0.1%
Debt Securities	5.0%	0.4%
Equity Securities	-3.2%	1.2%
Total Investment Return	0.6%	0.8%

As shown in Table 1, the net investment position of the GET Fund decreased by $(497.0) million during the fiscal year ended June 30, 2016. Net withdrawals to the GET Fund participants during the year decreased net investment position by $(491.1) million. Net realized and unrealized losses decreased net investment position by $(40.5) million. The remaining increase was a result of net investment income reinvested within the funds.

Table 1 - Summarized Net Investment Position

	2016	2015	Dollar Change	Percent Change
Cash and Cash Equivalents	$ 120,201,904	$ 70,357,999	$ 49,843,905	70.8%
Debt Securities	924,359,113	1,003,709,111	(79,349,998)	-7.9%
Equity Securities	1,118,569,842	1,588,288,454	(469,718,612)	-29.6%
Total Investments	**2,163,130,859**	**2,662,355,564**	**(499,224,705)**	**-18.8%**
Collateral Held Under Securities Lending Agreements	41,177,362	75,740,190	(34,562,828)	-45.6%
Pending Trades and Other Investment Receivables	5,098,693	6,395,924	(1,297,231)	-20.3%
Total Assets	**2,209,406,914**	**2,744,491,678**	**(535,084,764)**	**-19.5%**
Investment Liabilities	42,280,261	80,379,325	(38,099,064)	-47.4%
Net Investment Position	**$ 2,167,126,653**	**$ 2,664,112,353**	**$ (496,985,700)**	**-18.7%**

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

- Cash and cash equivalents increased by $49.8 million and were the result of sales of debt and equity securities. Cash balances represent 5.6 percent of total invested balances and are within policy target allocations. Initially, net investment income received from all asset classes and net cash flows from GET participants are reinvested or withdrawn from money market funds. Long term investments are made as the cash becomes available and market opportunities exist. Cash balances fluctuate within policy ranges and are held to meet cash flow needs of the program. During the current fiscal year, the GET Fund held higher cash balances in anticipation of large withdrawals expected through December 2016.
- Debt securities decreased by $(79.3) million. Net realized and unrealized gains increased this asset class by $42.1 million. Withdrawal requests of ($124.9) million were funded from sales of fixed income securities. The remaining increase was due to reinvestment of net investment income within the fixed income portfolio. The global low interest rate environment continued in Fiscal Year 2016, due to central bank policies, slow economic growth, and low inflation. Treasury yields moved up and down for the first six months of the fiscal year, then fell for the last six months. For the full fiscal year, long duration treasuries dramatically outperformed short duration ones, as did long duration credits. The Federal Open Markets Committee raised the Fed Funds rate at its December meeting. Fixed income performance was positive for the year, and outperformed its benchmark due to duration management and credit selection.
- Equity securities decreased by $(469.7) million. Withdrawal requests of $(416.3) million were funded from sales of equity securities. Net realized and unrealized losses decreased equity balances by $(82.6) million. The remaining increase was the result of net investment income reinvested in equity securities. Overall, the U.S. equity market returned 2.3 percent and the non-U.S. market lost (9.7) percent as measured by Morgan Stanley Capital International (MSCI) indexes, which are broad barometers of overall market returns. Economic concerns led to declines in returns over the prior year in both the U.S. and non-U.S. equity markets. The U.S. equity market continued to perform relatively better in fiscal year 2016 versus non-U.S. equity markets. During Fiscal Year 2016, the U.S. dollar held its appreciated value due to interest rate differentials, superior U.S. economic growth, and the dollar's safety. Returns from non-U.S. equity markets suffered from local market declines and the strength of the U.S. dollar. Generally, the local market declines were due to slower Gross Domestic Product (GDP) growth and higher unemployment relative to the U.S. and broadly lower interest rates. The price of oil and several other commodities fell significantly over the second half of 2015 and then largely rebounded in the first half of 2016. In the U.S., value-oriented securities, including those that pay dividends, outperformed growth securities as well as the broader market, with most of that outperformance coming in the first half of 2016.
- Collateral held and obligations under securities lending agreements decreased by $(34.6) million. Reported collateral balances in the GET Funds financial statements represent only cash received as collateral and reinvested. Additional securities received as collateral totaled $74.2 million. Overall securities on loan and collateral held

decreased by $(24.1) million and $(25.8) million, respectively. The decrease collateral and overall loan balances in the GET Fund as demand to borrow non-U.S. equity securities fell.

As shown in Table 2, net investment income decreased by $(26.8) million during the fiscal year ended June 30, 2016. The majority of this decrease was the result of increases in net realized and unrealized losses of $(18.6) million. The current fiscal year return for the GET Fund was 0.6 percent compared to the prior fiscal year return of 0.8 percent. This decline in total returns was due entirely to negative returns in the GET Funds equity investments. Interest, dividend, and other investment income decreased by $(8.2) million. Equity and fixed income balances decreased by 21 percent over the prior fiscal year, which resulted in lower dividend and interest payments received.

Net withdrawals from the GET Fund increased by $477.6 million. The GET fund made large withdrawal requests in the current fiscal year to fund distributions to GET participants. Due to decreases in Washington college tuition rates, the payout value of GET tuition units decreased substantially during the current fiscal year. Certain account holders were allowed to withdraw their funds at the greater of their contributed funds or the current payout rate without state penalties from September 2015 to December 2016. The GET program is temporarily closed to new enrollments and unit sales.

Table 2 - Summarized Changes in Net Investment Position

	2016	2015	Dollar Change	Percent Change
Net Investment Income				
Interest, Dividends and Other Investment Income	$ 36,142,427	$ 44,327,283	$ (8,184,856)	-18.5%
Net Realized and Unrealized Losses	(40,485,794)	(21,896,763)	18,589,031	-84.9%
Less: Fees and Expenses	(1,500,559)	(1,455,344)	45,215	3.1%
Net Investment Income (Loss)	**(5,843,926)**	**20,975,176**	**(26,819,102)**	**-127.9%**
Net Amount Withdrawn	(491,141,774)	(13,511,673)	477,630,101	3534.9%
Net Investment Position - Beginning	**2,664,112,353**	**2,656,648,850**	**7,463,503**	**0.3%**
Net Investment Position - Ending	**$ 2,167,126,653**	**$ 2,664,112,353**	**$ (496,985,700)**	**-18.7%**

The WSIB staff rebalances the GET Funds' investments between asset classes as markets fluctuate, pursuant to WSIB policy. The fair value of the GET Fund assets is directly impacted by the returns of the various capital markets within which the WSIB invests. The returns are expected to have a significant effect on net investment position and results of operations in the future. However, one of the benefits of diversification gained by investing across various investment types, as well as broadly within an asset class, is the reduction in aggregate volatility of the total investment portfolio. The WSIB, after discussions with the GET Committee, makes the asset allocation decisions for the GET Fund investments.

GET Fund Statement of Net Investment Position - June 30, 2016

See notes to financial statements

ASSETS			Percent of Total
Investments:			
CASH AND CASH EQUIVALENTS	$	120,201,904	5.6%
DEBT SECURITIES			
US Government and Agency Securities		183,235,322	
Commingled Intermediate Credit		741,123,791	
Total Debt Securities		924,359,113	42.7%
EQUITY SECURITIES			
Common and Preferred Stock		1,067,244,603	
Real Estate Investment Trusts		38,637,668	
Depository Receipts and Other		12,687,571	
Total Equity Securities		1,118,569,842	51.7%
Total Investments		2,163,130,859	100.0%
Collateral Held Under Securities Lending Agreements		41,177,362	
Pending Trades and Other Investment Receivables		5,098,693	
Total Assets		2,209,406,914	
LIABILITIES			
Pending Trades and Other Payables		1,102,899	
Obligations Under Securities Lending Agreements		41,177,362	
Total Liabilities		42,280,261	
NET INVESTMENT POSITION	$	2,167,126,653	

GET Fund Statement of Changes in Net Investment Position - Year Ended June 30, 2016

See notes to financial statements

Net Investment Income (Loss)		
Investment Income		
Interest, Dividends and Other Investment Income	$	35,231,193
Securities Lending Income		911,234
Net Realized Capital Gains		113,293,456
Unrealized Losses		(153,779,250)
Less:		
Securities Lending Rebates and Fees		(321,517)
Investment Expenses		(695,974)
WSIB Operating Expenses		(483,068)
Net Investment Income (Loss)		(5,843,926)
Net Amount Withdrawn		(491,141,774)
Decrease in Net Investment Position		(496,985,700)
Net Investment Position - June 30, 2015		2,664,112,353
Net Investment Position - June 30, 2016	$	2,167,126,653

Notes to Financial Statements

Note 1. Description of Fund and Significant Accounting Policies

Description of Fund

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

Basis of Accounting

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

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments comprised of foreign currencies and short term investment funds. The short term investment funds are valued at cost. Accordingly, these investments are excluded from the fair value schedule in Note 6 to the basic financial statements.

Valuation of Investments

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

Revenue Recognition

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

Securities Lending

The collateral received under securities lending agreements, where the GET Fund has the ability to spend, pledge, or sell the collateral without borrower default, is included in the Statement of Net Investment Position. Liabilities resulting from these transactions are also recorded. Additionally, costs associated with securities lending transactions, including broker commissions and lending fees paid to the custodian bank, are reported as investment expenses in the accompanying financial statements. The Statement of Net Investment Position does not include detailed holdings of securities lending collateral by investment classification. Securities lending income received by the Get Fund during Fiscal Year 2016 was $0.9 million. Securities lending expenses during the fiscal year totaled $0.3 million.

Net Contributions and Withdrawals

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

Use of Estimates

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

Note 2. Fees and Expenses

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

Note 3. Deposit and Investment Risk Disclosures

Custodial Credit Risk

Custodial credit risk is the risk that in the event a depository institution or counterparty fails, the GET Fund will not be able to recover the value of its deposits, investments, or collateral securities. As of June 30, 2016, investment securities (excluding cash and cash equivalents and repurchase agreements held as securities lending collateral) are registered and held in the name of the WSIB, for the benefit of the GET Fund and are not exposed to custodial credit risk. There are no general policies relating to custodial credit risk.

Interest Rate Risk

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

Schedule 1 and 2 provide information about the interest rate risks associated with the GET Fund investments, as of June 30, 2016. The schedules display various asset classes held by maturity in years, effective durations, and credit ratings. Fixed income securities are reported using the average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity of these securities, taking into account possible prepayments of principal.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The GET Fund's investment policies limit the fixed income securities to investment grade or higher at the time of purchase. Investment grade securities are those fixed income securities with a Moody's rating of Aaa to Baa or a Standard and Poor's rating of AAA to BBB. The rated debt investments as of June 30, 2016, were rated by Moody's and/or an equivalent national rating organization. Investment types with multiple ratings are presented in Schedule 2 using the Moody's rating scale.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The GET Fund policy states no corporate fixed income issues cost shall exceed 3 percent of the fair value at the time of purchase, nor shall its fair value exceed 6 percent of the fair value at any time. There was no concentration of credit risk that exceeded these limits as of June 30, 2016.

Foreign Currency Risk

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

Note 4. Securities Lending

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

The fair value of the securities on loan at June 30, 2016, was approximately $112.2 million. The securities on loan remain in the Statement of Net Investment Position in their respective categories. At June 30, 2016, cash collateral received totaling $41.2 million is reported as a securities lending obligation, and the fair value of the re-invested cash collateral totaling $41.2 million is reported as security lending collateral in the Statement of Net Investment Position. Securities received as collateral where the GET Fund does not have the ability to pledge or sell the collateral unless the borrower defaults are not reported as assets and liabilities in the Statement of Net Investment Position. Total cash and securities received as collateral at June 30, 2016, was $115.3 million.

Debt and equity securities were loaned and collateralized by the GET Fund's agent, with cash and U.S. Government or U.S. Agency Securities including, U.S. Agency Mortgage Backed Securities (exclusive of letters of credit). When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest of the loaned securities. The table summarizes the securities held from reinvestment of cash collateral and securities received as collateral at June 30, 2016.

In Millions:	Cash Collateral	Non Cash Collateral	Total
Mortgage Backed Securities	$ -	$ 20.2	$ 20.2
Repurchase Agreements	16.3	-	16.3
Yankee CD	9.2	-	9.2
Commercial Paper	7.0	-	7.0
US Treasuries	0.4	53.9	54.3
Cash Equivalents and Other	8.3		8.3
Total Collateral Held	**$ 41.2**	**$ 74.1**	**$ 115.3**

During Fiscal Year 2016, securities lending transactions could be terminated on demand by either the GET Fund or the borrower. As of June 30, 2016, the cash collateral held had an average duration of 17.2 days and an average weighted final maturity of 73.4 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 2016, there were no significant violations of legal or contractual provisions and no failures by any borrowers to return loaned securities or to pay distributions thereon. Further, during Fiscal Year 2016 the GET Fund incurred no losses resulting from a default by either the borrowers or the securities lending agents.

Note 5. Derivatives

The GET Fund is authorized to utilize various derivative financial instruments, including financial futures and forward contracts. Derivative transactions involve, to varying degrees, market and credit risk. In connection with the global equity strategy within the portfolio, the GET Fund held investments in financial futures at various times throughout the fiscal year that are recorded at fair value with realized and unrealized gains and losses recognized in investment income in the Statement of Changes in Net

Investment Position. As of June 30, 2016, the derivative instruments held by the GET Fund are considered investment derivatives and not hedging derivatives for accounting purposes.

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

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

Forward currency contracts are agreements to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. These forward commitments are not standardized and carry credit risk due to the possible nonperformance by one of the counterparties. The maximum potential loss is the aggregate face value in U.S. dollars at the time the contract was opened; however, the likelihood of such loss is remote. During the fiscal year ended June 30, 2016, the GET Fund had no outstanding forward currency contracts.

Inherent in the use of OTC derivatives, the GET Fund is exposed to counterparty credit risk on all open OTC positions. Counterparty credit risk is the risk that a derivative counterparty may fail to meet its payment obligation under the derivative contract. As of June 30, 2016, the GET Fund had no open OTC derivatives and, accordingly, no counterparty credit risk. Derivatives which are exchange traded are not subject to counterparty credit risk.

		Changes in Fair Value - Included in Investment Income	Fair Value at June 30, 2016 - Investment Derivative	
	Classification	Amount	Amount	Notional
FUTURES CONTRACTS:				
Equity Index Futures	Investment	$ 433,345	$ 118,280	4,900

Note 6. Fair Value

GASB Statement No. 72, Fair Value Measurement and Application, (Statement 72) specifies a hierarchy of valuation classifications based on whether the inputs to the valuation techniques used in each valuation classification are observable or unobservable. These classifications are summarized in three broad levels listed below:

- Level 1 – Unadjusted quoted prices for identical instruments in active markets.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either, directly or indirectly, including quoted prices for similar assets or liabilities in markets that are active; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs other than quoted prices that are observable for the assets or liabilities (such as exchange rates, financing terms, interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks, and default rates).
- Level 3 – Valuations derived from valuation techniques in which significant inputs or significant value drivers are unobservable.

Inputs used to measure fair value might fall in different levels of the fair value hierarchy; in which case, the GET Fund defaults to the lowest level input that is significant to the fair value measurement of each investment, with Level 3 being the lowest level. The determination of fair value of an investment within the hierarchy of classifications above is not necessarily an indication of the risk or liquidity associated with the investments. In determining the appropriate levels, the GET Fund performed a detailed analysis of the assets and liabilities that are subject to Statement 72. Valuation policies and procedures are managed by the Investment Accounting and Administration unit of the WSIB, which regularly monitors fair value measurements. Fair value measurements are prepared and reviewed monthly, and any third party valuations are reviewed for reasonableness and compliance with relevant accounting standards.

The GET Funds receive fair value prices for publicly traded securities directly from their custodian bank. These prices are obtained from reputable pricing sources which include but are not limited to Thomson Reuters, Barclays, and Interactive Data Corporation. The custodian bank performs the following tolerance and review checks on the pricing data on a daily basis:

Publicly Traded Equity

- Comparison of primary pricing sources to a secondary source with a zero tolerance threshold.
- Researches price changes from the previous day of 10 percent or greater with verification to secondary sources.
- Researches price changes from the previous day in excess of 20 percent by reviewing market related company news and corporate actions.
- Prices unchanged in excess of 5 days requires verification that there is no market status change.

Fixed Income

- Researches price changes from the previous day of 2 to 5 percent or greater with corroborating evidence required from the primary pricing vendor.
- Prices unchanged in excess of 10 days are sent to the appropriate vendor for review and verification.

The following table presents fair value measurements as of June 30, 2016:

		Fair Value Measurements Using:		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
INVESTMENTS				
DEBT SECURITIES	$ 183,235,322	$ -	$ 183,235,322	$ -
EQUITY SECURITIES	1,118,569,842	1,116,801,968	1,767,874	-
Total Investments By Fair Value Level	1,301,805,164	1,116,801,968	185,003,196	-
INVESTMENTS MEASURED AT NET ASSET VALUE				
Commingled Intermediate Credit	741,123,791			
Total Investments Measured at Fair Value	$ 2,042,928,955			
OTHER ASSETS (LIABILITIES) AT FAIR VALUE				
Collateral Held Under Securities Lending Agreements	$ 41,177,362	$ -	$ 41,177,362	$ -
Margin Variation Receivable - Futures Contracts	118,280	118,280	-	-
Obligations Under Securities Lending Agreements	(41,177,362)	-	(41,177,362)	-
Total Other Assets (Liabilities) Measured at Fair Value	$ 118,280	$ 118,280	$ -	$ -

Debt and Equity Securities (Level 1 and 2)

Investments classified as level 1 in the above table were exchange traded equity securities, whose values are based on published market prices and quotations from national security exchanges, as of the last business day of each reporting period end.

Investments classified as level 2 in the above table were primarily comprised of publicly traded debt securities and exchange traded stocks traded in inactive markets. Publicly traded debt securities are sourced from reputable pricing vendors, using models that are market-based measurements representing their good faith opinion as to the exit value of a security, in an orderly transaction under current market conditions. Such models take into account quoted prices, nominal yield spreads, benchmark yield curves, prepayment speeds, and other market corroborated inputs.

Commingled Intermediate Credit (Investments Measured at Net Asset Value)

The GET Fund invests in the Bond Fund managed by the WSIB which is a commingled investment fund. Investments in this fund are not available to the general public. It is an open-ended fund which issues or reduces shares for purchases and redemptions. The Bond Fund staff determines a net asset value per share by obtaining fair values of the underlying holdings, using reputable pricing sources on a daily basis. The holdings within this fund are publicly traded debt securities and are actively managed to meet or exceed the return of the Barclays Capital Intermediate Credit Index. The GET Fund may redeem some or all of their holdings daily without restriction (see the Daily Valued Funds audited financials issued by the WSIB for further information).

Other Assets and Liabilities

Collateral held and obligations under securities lending agreements are detailed in Note 4 to the basic financial statements. Cash collateral securities (and the offsetting obligation) are valued by the GET Fund lending agent and sourced from reputable pricing vendors, using proprietary models that are market-based measurements representing their good faith opinion as to the exit value of a security, in an orderly transaction under current market conditions. Such models take into account quoted prices, nominal yield spreads, benchmark yield curves, prepayment speeds, and other market corroborated inputs.

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 margin variation represents the current gain or loss remaining to be settled from the prior day. The custodian provides quoted market prices for these securities from a reputable pricing vendor.

Note 7. Summary of Investment Policy

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

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

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

Performance Objectives

Performance of the investment portfolio shall be judged relative to the investment objectives, the risk constraint standards, and the investment approach. The fund has both a long-term absolute goal and several relative performance objectives:

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

Risk Constraint Standards

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

Permissible Investments

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

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

Asset Allocation

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

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

Asset Class	Target	Range
Global Equities	55%	40%-70%
Fixed Income	40%	30%-50%
Cash	5%	0%-20%

Schedule 1: Schedule of Maturities and Credit Ratings

Investment Type	Total Fair Value	Maturity: Less than 1 year	1-5 years	6-10 years	More than 10 years	Effective Duration	Credit Rating
US Government and Agency Securities	$ 183,235,322	$ -	$ 112,153,173	$ 71,082,149	$ -	5.6	AAA
Commingled Intermediate Credit	741,123,791	105,743,050	327,408,711	302,904,785	5,067,245	4.6	Schedule 2
	924,359,113	$ 105,743,050	$ 439,561,884	$ 373,986,934	$ 5,067,245	4.8*	
Investments Not Required to be Categorized							
Equity Securities	1,118,569,842						
Cash and Cash Equivalents	120,201,904						
Total Investments Not Categorized	1,238,771,746						
Total Investments	$ 2,163,130,859						

* Duration excludes cash and cash equivalents

Schedule 2: Additional Credit Rating Disclosures

Moody's Equivalent Credit Rating	Commingled Intermediate Credit Total Fair Value
Aaa	$ 52,707,326
Aa1	1,808,198
Aa2	13,082,977
Aa3	78,450,397
A1	80,607,184
A2	90,257,538
A3	97,921,764
Baa1	98,102,956
Baa2	88,112,059
Baa3	102,317,817
Ba1 or Lower	37,755,575
Total Fair Value	$ 741,123,791

Schedule 3: Foreign Currency Exposure by Currency

	Investment Type In U.S. Dollar Equivalent			
Foreign Currency Denomination	Cash and Cash Equivalents	Equity Securities	Total	Percent of Total GET Funds Investments
AUSTRALIAN DOLLAR	$ 63,912	$ 26,209,162	$ 26,273,074	1.2%
BRAZILIAN REAL	235,108	7,845,274	8,080,382	0.4%
CANADIAN DOLLAR	54,872	36,459,574	36,514,446	1.7%
CHILEAN PESO	21,177	1,396,811	1,417,988	0.1%
DANISH KRONE	456	7,427,896	7,428,352	0.3%
EURO CURRENCY	143,635	105,402,316	105,545,951	4.9%
HONG KONG DOLLAR	304,233	36,732,231	37,036,464	1.7%
INDIAN RUPEE	80,699	10,318,305	10,399,004	0.5%
INDONESIAN RUPIAH	291,440	3,390,313	3,681,753	0.2%
JAPANESE YEN	567,720	90,908,636	91,476,356	4.2%
MALAYSIAN RINGGIT	53,160	4,171,320	4,224,480	0.2%
MEXICAN PESO (NEW)	123,010	5,113,071	5,236,081	0.2%
NEW ISRAELI SHEQEL	35,972	2,400,061	2,436,033	0.1%
NEW TAIWAN DOLLAR	327,805	15,715,988	16,043,793	0.7%
NEW ZEALAND DOLLAR	37,575	1,158,664	1,196,239	0.1%
NORWEGIAN KRONE	57,920	2,969,603	3,027,523	0.1%
PHILIPPINE PESO	7,374	1,541,079	1,548,453	0.1%
POLISH ZLOTY	7,088	1,170,130	1,177,218	0.1%
POUND STERLING	126,841	71,889,536	72,016,377	3.3%
SINGAPORE DOLLAR	85,566	5,235,169	5,320,735	0.3%
SOUTH AFRICAN RAND	181,889	8,255,563	8,437,452	0.4%
SOUTH KOREAN WON	14,914	17,509,603	17,524,517	0.8%
SWEDISH KRONA	1,890	11,485,534	11,487,424	0.5%
SWISS FRANC	111	32,562,362	32,562,473	1.5%
THAILAND BAHT	27,051	1,860,187	1,887,238	0.1%
TURKISH LIRA	12,838	1,698,209	1,711,047	0.1%
OTHER - MISCELLANEOUS	54,317	2,268,584	2,322,901	
	$ 2,918,573	$ 513,095,181	$ 516,013,754	23.9%

DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST FUND

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Developmental Disabilities Endowment Trust Fund of the State of Washington as managed by the Washington State Investment Board (the Developmental Disabilities Endowment Trust Fund), which comprise the statement of net investment position as of June 30, 2016, and the related statement of changes in net investment position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the investment position of the Developmental Disabilities Endowment Trust Fund as of June 30, 2016, and the changes in net investment position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Eide Bailly LLP

Boise, Idaho
September 28, 2016

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Management Discussion and Analysis

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

The financial statements and footnotes follow this section of the report. The Statement of Net Investment Position provides information on the types of investments, assets, and liabilities of the DDEF, as of June 30, 2016. This information is summarized in Table 1, which compares the asset, liability, and net investment balances at June 30, 2016, with those at June 30, 2015. The Statement of Changes in Net Investment Position provides information on investment performance and other increases and decreases in the net investment position of the DDEF for the year ended June 30, 2016. This information is summarized in Table 2, which compares the financial activities of the DDEF for the year ended June 30, 2016, with those of the year ended June 30, 2015. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements of the DDEF.

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

	Developmental Disabilities Endowment Trust Fund - State		Developmental Disabilities Endowment Trust Fund - Private	
Investment Returns by Asset Class	**FY 2016**	**FY 2015**	**FY 2016**	**FY 2015**
Cash and Cash Equivalents	0.2%	0.1%	0.2%	0.1%
Debt Securities	5.3%	0.1%	NA	NA
Equity Securities	-3.5%	2.1%	NA	NA
Balanced Trust	NA	NA	4.0%	5.1%
Total Investment Return	3.7%	0.3%	4.0%	5.1%

DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST FUND

As shown in Table 1, the net investment position of the DDEF increased by $4.0 million during the fiscal year ended June 30, 2016. The increase in net investment position was primarily due to the contributions to the private trust fund of $2.0 million and net realized and unrealized gains of $1.2 million. The remaining net investment position increase was the result of net investment earnings reinvested within the DDEF funds.

Table 1 - Summarized Net Investment Position

	2016	2015	Dollar Change	Percent Change
Cash and Cash Equivalents	$ 30,626	$ 31,420	$ (794)	-2.5%
Debt Securities	10,019,191	9,516,930	502,261	5.3%
Equity Securities	1,948,515	2,018,773	(70,258)	-3.5%
Balanced Mutual Funds	41,030,881	37,429,510	3,601,371	9.6%
Total Investments	**53,029,213**	**48,996,633**	**4,032,580**	**8.2%**
Earnings Receivable	13	10	3	30.0%
Total Assets	**53,029,226**	**48,996,643**	**4,032,583**	**8.2%**
Investment Liabilities	172	185	(13)	-7.0%
Net Investment Position	**$ 53,029,054**	**$ 48,996,458**	**$ 4,032,596**	**8.2%**

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

- Cash and cash equivalents remained steady with minimal change. Cash balances represent less than 1 percent of total investments and are within policy ranges. Net investment income and contributions received are invested into money market funds and subsequently reinvested in longer term securities. Money market balance fluctuations are a result of the timing of cash received and the reinvestment to other asset classes.
- Debt securities increased by $0.5 million. This increase is due entirely to net realized and unrealized gains within this asset class. The global low interest rate environment continued in Fiscal Year 2016, due to central bank policies, slow economic growth, and low inflation. Treasury yields moved up and down for the first six months, then fell for the last six months. For the full fiscal year, long duration treasuries dramatically outperformed short duration ones, as did long duration credits. The Federal Open Markets Committee raised the Fed Funds rate at its December meeting. Fixed income performance was positive for the fiscal year and outperformed its benchmark, due to duration management and credit selection.
- Balanced mutual funds increased $3.6 million. Private trust fund contributions of $2.0 million were invested in this asset class. Realized and unrealized gains increased the portfolio by $0.8 million. The remaining increase was due to the reinvestment of income within the fund. The balanced mutual fund is invested for the purpose of capital appreciation, current income, and long term growth through a mix of 60 percent equities and 40 percent bonds. The overall performance in the current fiscal year was 4.0 percent.
- Equity securities decrease of $(0.1) million was entirely due to net realized and unrealized losses within the portfolio. Overall, the U.S. equity market returned 2.3 percent and the non-U.S. market lost (9.7) percent, as measured by Morgan Stanley Capital International (MSCI) indexes, which are broad barometers of overall market returns. Economic concerns led to declines in returns over the prior year in both the U.S. and non-U.S. equity markets. The U.S. equity market continued to perform relatively better in fiscal year 2016 versus non-U.S equity markets. During Fiscal Year 2016, the U.S. dollar held its appreciated value due to interest rate differentials, superior U.S. economic growth, and the dollar's safety. Returns from non-U.S. equity markets suffered from local market declines and the strength of the U.S. dollar. Generally, the local market declines were due to slower Gross Domestic Product (GDP) growth and higher unemployment relative to the U.S. and broadly lower interest rates. The price of oil and several other commodities fell significantly over the second half of 2015 and then largely rebounded in the first half of 2016. In the U.S., value-oriented securities including those that pay dividends, outperformed growth securities as well as the broader market, with most of that outperformance coming in the first half of 2016.

As shown in Table 2, net investment income increased by $0.2 million from the prior year, almost entirely due to increases in net realized and unrealized gains from the prior year. Contributions increased over the prior year as the private trust fund received more investments from participants during the current fiscal year. The DDEF State portfolio returned 3.7 percent during the current fiscal year and the DDEF Private portfolio returned 4.0 percent for the same time period. The State portfolio returns were up over the prior fiscal year due to positive investment returns in the fixed income portfolio. The Private portfolio returns were down over the prior fiscal year due to the 60 percent allocation to public equity markets within the Balanced Mutual Funds.

Table 2 - Summarized Changes in Net Investment Position

	2016	2015	Dollar Change
Net Investment Income			
Investment Income	$ 837,044	$ 755,618	$ 81,426
Net Realized and Unrealized Gains	1,197,370	1,007,386	189,984
Less:			
Investment Expenses	(4,033)	(3,861)	172
Net Investment Income	**2,030,381**	**1,759,143**	**271,238**
Net Amount Contributed	2,002,215	1,501,856	500,359
Net Investment Position - Beginning	**48,996,458**	**45,735,459**	**3,260,999**
Net Investment Position - Ending	**$ 53,029,054**	**$ 48,996,458**	**$ 4,032,596**

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

DDEF Statement of Net Investment Position - June 30, 2016

See notes to financial statements

	Developmental Disabilities Endowment Trust Fund State	Developmental Disabilities Endowment Trust Fund Private	Total	Percent of Total
ASSETS				
Investments:				
CASH AND CASH EQUIVALENTS				
Money Market Funds	$ 20,929	$ 9,697	$ 30,626	0.1%
DEBT SECURITIES				
Commingled Intermediate Credit	10,019,191	-	10,019,191	18.9%
EQUITY SECURITIES				
Commingled Equity Index Funds	1,948,515	-	1,948,515	3.7%
BALANCED FUNDS				
Balanced Mutual Funds	-	41,030,881	41,030,881	77.3%
Total Investments	11,988,635	41,040,578	53,029,213	100.0%
Investment Earnings Receivable	9	4	13	
Total Assets	11,988,644	41,040,582	53,029,226	
LIABILITIES				
Accrued Expenses Payable	170	2	172	
NET INVESTMENT POSITION	**$ 11,988,474**	**$ 41,040,580**	**$ 53,029,054**	

DDEF Statement of Changes in Net Investment Position - Year Ended June 30, 2016

See notes to financial statements

	Developmental Disabilities Endowment Trust Fund State	Developmental Disabilities Endowment Trust Fund Private	Total
Net Investment Income			
Investment Income:			
Interest, Dividends and Other Investment Income	$ 1,366	$ 835,678	$ 837,044
Net Realized Capital Losses	(49)	-	(49)
Unrealized Gains	430,841	766,578	1,197,419
Less:			
Investment Expenses	(732)	(1,086)	(1,818)
WSIB Operating Expenses	(2,215)	-	(2,215)
Net Investment Income	429,211	1,601,170	2,030,381
Net Amount Contributed	2,215	2,000,000	2,002,215
Increase in Net Investment Position	431,426	3,601,170	4,032,596
Net Investment Position, June 30, 2015	11,557,048	37,439,410	48,996,458
Net Investment Position, June 30, 2016	$ 11,988,474	$ 41,040,580	$ 53,029,054

Notes to Financial Statements

Note 1. Description of Funds and Significant Accounting Policies

Description of Funds

The DDEF of Washington State consists of two funds: 1) the State Trust Fund which was originally created from a grant by Washington State, and 2) the Private Trust Fund, which consists of contributions by private individuals participating in the program. These funds are invested by the WSIB until participants withdraw funds as needed. The financial statements present only the activity of the DDEF as managed by the WSIB. The WSIB has exclusive control of the investments held by the DDEF. The financial statements do not present the financial position and results of operations of the WSIB or the activity of the DDEF.

Basis of Accounting

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

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments which are short term investment funds valued at cost. Accordingly, these investments are excluded from the fair value schedule in Note 4 to the basic financial statements.

Valuation of Investments

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

Revenue Recognition

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

Contributions and Withdrawals

Contributions and withdrawals are recorded when received or paid.

Use of Estimates

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

Note 2. Fees and Expenses

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

Note 3. Deposit and Investment Risk Disclosures

Custodial Credit Risk

Custodial credit risk is the risk that in the event a depository institution or counterparty fails, the DDEF Funds will not be able to recover the value of its deposits, investments, or collateral securities. As of June 30, 2016, investment securities (excluding cash, cash equivalents, and repurchase agreements held as securities lending collateral) are registered and held in the name of the WSIB for the benefit of the DDEF Funds, and are not exposed to custodial credit risk. There are no general policies relating to custodial credit risk.

Interest Rate Risk

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

Schedule 1 and 2 provide information about the interest rate risks associated with the DDEF investments, as of June 30, 2016. The schedules display various asset classes held by maturity in years, effective durations, and credit ratings. Fixed income securities are reported using the average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity for these securities, taking into account possible prepayments of principal.

Credit Risk

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

The DDEF's rated debt investments as of June 30, 2016, were rated by Moody's or equivalent rating methodology.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. Revised Code of Washington (RCW) 43.33A.140 requires that corporate fixed income securities cost may not exceed 3 percent of the DDEF Funds fair value at the time of purchase, nor shall its fair value exceed 6 percent of the DDEF Funds' fair value at any time. There was no concentration of credit risk that exceeded these limits as of June 30, 2016.

Foreign Currency Risk

Foreign currency risk is defined as any deposits or investments that are denominated in foreign currencies, which bear a potential risk of loss arising from changes in currency exchange rates. The DDEF has no formal policy to limit foreign currency risk. The only securities held by the DDEF with foreign currency exposure at June 30, 2016, consists of $820,602 invested in various international commingled equity index funds.

Note 4. Fair Value

GASB Statement No. 72, Fair Value Measurement and Application, (Statement 72) specifies a hierarchy of valuation classifications based on whether the inputs to the valuation techniques used in each valuation classification are observable or unobservable. These classifications are summarized in three broad levels listed below:

- Level 1 – Unadjusted quoted prices for identical instruments in active markets.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly, including quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than

quoted prices that are observable for the assets or liabilities (such as exchange rates, financing terms, interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks, and default rates).

- Level 3 – Valuations derived from valuation techniques in which significant inputs or significant value drivers are unobservable.

Inputs used to measure fair value might fall in different levels of the fair value hierarchy; in which case, the DDEF defaults to the lowest level input that is significant to the fair value measurement of each investment, with Level 3 being the lowest level. The determination of fair value of an investment within the hierarchy of classifications above is not necessarily an indication of the risk or liquidity associated with the investments. In determining the appropriate levels, the DDEF performed a detailed analysis of the assets and liabilities that are subject to Statement 72. Valuation policies and procedures are managed by the Investment Accounting and Administration unit of the WSIB, which regularly monitors fair value measurements. Fair value measurements are prepared and reviewed monthly, and any third party valuations are reviewed for reasonableness and compliance with relevant accounting standards.

The following table presents fair value measurements at June 30, 2016:

		Fair Value Measurements Using:		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
INVESTMENTS				
BALANCED FUNDS				
Balanced Mutual Funds	$ 41,030,881	$ 41,030,881	$ -	$ -
Total Investments By Fair Value Level	41,030,881	41,030,881	-	-
COMMINGLED INVESTMENT FUNDS - INVESTMENTS MEASURED AT NET ASSET VALUE				
Commingled Equity Index Funds	1,948,515			
Commingled Intermediate Credit	10,019,191			
Total Investments at Net Asset Value	11,967,706			
Total Investments Measured at Fair Value	$ 52,998,587			

Balanced Mutual Funds (Level 1)

The DDEF invests in a publicly traded mutual fund, the Vanguard Balanced Index Fund Institutional Shares (ticker VBIAX), which is actively traded on the New York Stock Exchange. The closing market price of the shares at June 30, 2016, was $30.26 per share, which was verified to independent sources by DDEF staff. The fund invests roughly 60 percent in stocks and 40 percent in bonds by tracking two indexes that represent broad barometers for the U.S. equity and U.S. taxable bond markets.

Commingled Investment Funds (Investments Measured at Net Asset value)

The DDEF invests in Collective Investment Trusts operated by a bank or trust company and groups assets contributed into a commingled investment Fund. In addition, the DDEF invests in the Daily Valued Bond Fund managed by the WSIB, whose audited financials are included in the Daily Valued Fund section of the WSIB's audited financial statements. These "mutual fund" type investments are not available to the general public and are open-ended funds which issues or reduces shares for purchases and redemptions. The commingled fund manager determines a price per unit of each fund by obtaining fair values of the underlying holdings, using reputable pricing sources and computing an overall net asset value per share. The holdings within each fund are publicly traded securities.

Five funds are invested in equity securities and, combined, are passively managed to approximate the broad global stock market, as defined by the MSCI All Country World Investable Market Index (MSCI ACWI IMI). Each fund has monthly openings and contributions, and withdrawals can be made on each opening date. The fund manager reserves the right to delay the processing of deposits and withdrawals from each investment vehicle in order to ensure that securities transactions will be carried out in an orderly manner. The fund may suspend valuation and withdrawal rights when, at the fund managers sole discretion, prevailing market conditions or other circumstances, events, or occurrences make the withdrawal or valuation of investments impracticable or inadvisable, or when the fund manager otherwise considers such action to be in the best interests of the fund and participants.

One Fund is invested in the WSIB Daily Bond Fund and is actively managed to meet or exceed the return of the Barclays Capital Intermediate Credit Index. The DDEF may redeem some or all of their holdings daily without restriction (see the Daily Valued Funds audited financials issued by the WSIB for further information).

Note 5. Summary of Investment Policy

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

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

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

Risk Constraint Standards

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

Permissible Investments

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

Asset Allocation

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

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

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

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

Private Funds	Target
Fixed Income	40%
Equities	60%

Schedule 1: Schedule of Maturities and Credit Ratings

Investment Type	Total Fair Value	Maturity: Less than 1 year	Maturity: 1-5 years	Maturity: 6-10 years	Maturity: More than 10 years	Effective Duration	Credit Rating
Commingled Intermediate Credit	$ 10,019,191	$ 1,429,531	$ 4,426,211	$ 4,094,945	$ 68,504	4.6	Schedule 2
Investments Not Required to be Categorized							
Commingled Equity Index Funds	1,948,515						
Balanced Mutual Funds	41,030,881						
Money Market Funds	30,626						
Total Investments Not Categorized	43,010,022						
Total Investments	$ 53,029,213						

Schedule 2: Additional Credit Rating Disclosures

Moody's Equivalent Credit Rating	Commingled Intermediate Credit Market Value
Aaa	$ 712,546
Aa1	24,445
Aa2	176,868
Aa3	1,060,564
A1	1,089,722
A2	1,220,184
A3	1,323,796
Baa1	1,326,246
Baa2	1,191,180
Baa3 and below	1,893,640
Total Fair Value	$ 10,019,191

WASHINGTON STATE OPPORTUNITY SCHOLARSHIP FUNDS

EideBailly

CPAs & BUSINESS ADVISORS

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Washington State Opportunity Scholarship Funds of the State of Washington as managed by the Washington State Investment Board (the Washington State Opportunity Scholarship Funds), which comprise the statement of net investment position as of June 30, 2016, and the related statement of changes in net investment position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the investment position of the Washington State Opportunity Scholarship Funds as of June 30, 2016, and the changes in net investment position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Eide Bailly LLP

Boise, Idaho
September 28, 2016

Management Discussion and Analysis

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

The financial statements and footnotes follow this section of the report. The Statement of Net Investment Position provides information on the types of investments, assets, and liabilities of the WSOSF, as of June 30, 2016. This information is summarized in Table 1. Table 1 also compares the asset, liability, and net investment balances at June 30, 2016, with those at June 30, 2015. The Statement of Changes in Net Investment Position provides information on investment performance and other increases and decreases in the net investment position of the WSOSF, for the year ended June 30, 2016. This information is summarized in Table 2. Table 2 also compares the financial activities of the WSOSF for the year ended June 30, 2016, with those of the year ended June 30, 2015. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements of the WSOSF.

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

	Scholarship Fund		Endowment Fund	
Investment Return by Asset Class	**FY 2016**	**FY 2015 ***	**FY 2016**	**FY 2015 ***
Cash and Cash Equivalents	0.1%	0.0%	0.1%	0.0%
Debt Securities	5.3%	1.7%	5.3%	1.7%
Equity Securities	-4.1%	4.0%	-3.6%	4.0%
Total Investment Return	-0.6%	2.4%	-0.8%	2.7%

* Performance calculated from initial funding date of September 30, 2014

As shown in Table 1, the net investment position of the WSOSF increased by $41.5 million during the fiscal year ended June 30, 2016. The increase in net investment position was primarily due to the contributions received of $41.0 million and net realized and unrealized gains of $.5 million.

Table 1 - Summarized Net Investment Position

	2016	2015	Dollar Change	Percent Change
Cash and Cash Equivalents	$ 39,868,484	$ 19,004,281	$ 20,864,203	109.8%
Debt Securities	15,626,302	8,336,767	7,289,535	87.4%
Equity Securities	29,813,638	16,429,416	13,384,222	81.5%
Total Investments	**85,308,424**	**43,770,464**	**41,537,960**	**94.9%**
Earnings Receivable	15,896	3,280	12,616	384.7%
Total Assets	**85,324,320**	**43,773,744**	**41,550,576**	**94.9%**
Investment Liabilities	10,234	5,201	5,033	96.8%
Net Investment Position	**$ 85,314,086**	**$ 43,768,543**	**$ 41,545,543**	**94.9%**

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

- Cash and cash equivalents increased by $20.9 million. The balance increased from contributions received and invested in this asset class. Currently, all state matching funds are invested in money market funds due to legal restrictions as to the type of investments that can be made. Money market balance fluctuations are a result of the timing of cash received and the reinvestment to other asset classes.
- Debt securities increased by $7.3 million. This increase is due to contributions received to purchase fixed income securities of $6.5 million. Net realized and unrealized gains within the fixed income portfolio increased this asset class by $0.8 million. The global low interest rate environment continued in Fiscal Year 2016, due to central bank policies, slow economic growth, and low inflation. Treasury yields moved up and down for the first six months of the fiscal year, then fell for the last six months. For the full fiscal year, long duration treasuries dramatically outperformed short duration ones, as did long duration credits. The Federal Open Markets Committee raised the Fed Funds rate at its December meeting. Fixed income performance was positive for the year, and outperformed its benchmark due to duration management and credit selection.
- Equity securities increased by $13.4 million. Contributions received to purchase equity securities was $13.6 million. The equity portfolio decreased by $(0.2) million from net realized and unrealized losses. Overall, the U.S. equity market returned 2.3 percent and the non U.S. market lost (9.7) percent as measured by Morgan Stanley Capital International (MSCI) indexes, which are broad barometers of overall market returns. Economic concerns led to declines in returns over the prior year in both the U.S. and non U.S. equity markets. The U.S. equity market continued to perform relatively better in fiscal year 2016 versus non-U.S. equity markets. During Fiscal Year 2016, the U.S. dollar held its appreciated value due to interest rate differentials, superior U.S. economic growth, and the dollar's safety. Returns from non-U.S. equity markets suffered from local market declines and the strength of the U.S. dollar. Generally, the local market declines were due to slower Gross Domestic Product (GDP) growth and higher unemployment relative to the U.S. and broadly lower interest rates. The price of oil and several other commodities fell significantly over the second half of 2015 and then largely rebounded in the first half of 2016. In the U.S., value-oriented securities, including those that pay dividends, outperformed growth securities as well as the broader market, with most of that outperformance coming in the first half of 2016.

As shown in Table 2, net investment income was $.5 million, comprised almost entirely of net realized and unrealized gains and losses within the fixed income portfolio. During the current fiscal year, the WSOSF contributed $10.5 million to the endowment fund and $30.4 million to the scholarship fund.

Table 2 - Summarized Changes in Net Investment Position

	2016	2015	Dollar Change	Percent Change
Net Investment Income				
Investment Income	$ 94,058	$ 27,629	$ 66,429	240.4%
Net Realized and Unrealized Gains	551,604	768,066	(216,462)	-28.2%
Less:				
Investment Expenses	(73,119)	(33,152)	(39,967)	120.6%
Net Investment Income	**572,543**	**762,543**	(190,000)	**-24.9%**
Net Amount Contributed	40,973,000	43,006,000	(2,033,000)	-4.7%
Net Investment Position - Beginning	**43,768,543**	-	43,768,543	100.0%
Net Investment Position - Ending	**$ 85,314,086**	**$ 43,768,543**	**$ 41,545,543**	**94.9%**

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

Washington State Opportunity Scholarship Fund (WSOSF) Statement of Net Investment Position - June 30, 2016

See notes to financial statements

	WSOSF - Scholarship Fund	WSOSF - Endowment Fund	WSOSF - Cash Reserve	Total	Percent of Total
ASSETS					
Investments:					
CASH AND CASH EQUIVALENTS					
Short Term Investment Funds	$ 29,849,759	$ 10,009,342	$ 9,383	$ 39,868,484	46.7%
DEBT SECURITIES					
Commingled Intermediate Credit	12,835,960	2,790,342	-	15,626,302	18.3%
EQUITY SECURITIES					
Commingled Equity Index Funds	18,756,825	11,056,813	-	29,813,638	35.0%
Total Investments	61,442,544	23,856,497	9,383	85,308,424	100.0%
Investment Earnings Receivable	11,901	3,991	4	15,896	
Total Assets	61,454,445	23,860,488	9,387	85,324,320	
LIABILITIES					
Accrued Expenses Payable	7,222	3,010	2	10,234	
NET INVESTMENT POSITION	**$ 61,447,223**	**$ 23,857,478**	**$ 9,385**	**$ 85,314,086**	

Washington State Opportunity Scholarship Fund (WSOSF) Statement of Changes in Net Investment Position - Year Ended June 30, 2016

See notes to financial statements

	WSOSF - Scholarship Fund	WSOSF - Endowment Fund	WSOSF - Cash Reserve	Total
Net Investment Income				
Investment Income:				
Interest, Dividends and Other Investment Income	$ 67,403	$ 26,638	$ 17	$ 94,058
Net Realized and Unrealized Gains	475,856	75,748	-	551,604
Less:				
Investment Expenses	(44,317)	(18,073)	(11)	(62,401)
WSIB Operating Expenses	(7,643)	(3,075)	-	(10,718)
Net Investment Income	491,299	81,238	6	572,543
Cash Transfers	8,116	3,289	(11,405)	-
Net Amount Contributed	30,426,806	10,527,194	19,000	40,973,000
Increase in Net Investment Position	30,926,221	10,611,721	7,601	41,545,543
Net Investment Position, June 30, 2015	30,521,002	13,245,757	1,784	43,768,543
Net Investment Position, June 30, 2016	$ 61,447,223	$ 23,857,478	$ 9,385	$ 85,314,086

Notes to Financial Statements

Note 1. Description of Funds and Significant Accounting Policies

Description of Funds

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

Basis of Accounting

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

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments comprised of short term investment funds valued at cost. Accordingly, these investments are excluded from the fair value schedule in Note 4 to the basic financial statements.

Valuation of Investments

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

Revenue Recognition

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

Contributions and Withdrawals

Contributions and withdrawals are recorded when received or paid.

Use of Estimates

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

Note 2. Fees and Expenses

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

Note 3. Deposit and Investment Risk Disclosures

Custodial Credit Risk

Custodial credit risk is the risk that in the event a depository institution or counterparty fails, the WSOSF will not be able to recover the value of its deposits, investments, or collateral securities. As of June 30, 2016, investment securities (excluding cash and cash equivalents) are registered and held in the name of the WSIB, for the benefit of the WSOSF, and are not exposed to custodial credit risk. There are no general policies relating to custodial credit risk.

Interest Rate Risk

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

Schedule 1 and 2 provide information about the interest rate risks associated with the WSOSF investments, as of June 30, 2016. The schedules display various asset classes held by maturity in years, effective durations, and credit ratings. Fixed income securities are reported using the average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity for these securities, taking into account possible prepayments of principal.

Credit Risk

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

The WSOSF's rated debt investments as of June 30, 2016, 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 the cost of corporate fixed income securities may not exceed 3 percent of the WSOSF fair value at the time of purchase, nor shall its fair value exceed 6 percent of the WSOSF Funds' fair value at any time. There was no concentration of credit risk that exceeded these limits as of June 30, 2016.

Foreign Currency Risk

Foreign currency risk is defined as any deposits or investments that are denominated in foreign currencies, which bear a potential risk of loss arising from changes in currency exchange rates. The WSOSF has no formal policy to limit foreign currency risk. The only security held by the WSOSF with foreign currency exposure at June 30, 2016, consists of $29.8 million invested in an international commingled equity index funds (MSCI All Country World Investible Market Index). The WSOSF's exposure to foreign currency risk is presented in Schedule 3.

Note 4. Fair Value

GASB Statement No. 72, Fair Value Measurement and Application, (Statement 72) specifies a hierarchy of valuation classifications based on whether the inputs to the valuation techniques used in each valuation classification are observable or unobservable. These classifications are summarized in three broad levels listed below:

- Level 1 – Unadjusted quoted prices for identical instruments in active markets.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in markets that are active; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs other than quoted prices that are observable for the assets or liabilities (such as exchange rates, financing terms, interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks, and default rates).
- Level 3 – Valuations derived from valuation techniques in which significant inputs or significant value drivers are unobservable.

The WSOSF obtains exposure to debt and equity markets through commingled investment funds. Accordingly, the securities held are measured at net asset value and not categorized by Statement 72 hierarchy of valuation classifications detailed above. Valuation policies and procedures are managed by the Investment Accounting and Administration unit of the WSIB, which regularly monitors fair value measurements. Fair value measurements are prepared and reviewed monthly, and any third party valuations are reviewed for reasonableness and compliance with relevant accounting standards.

Commingled Investment Funds (Investments Measured at Net Asset value)

The WSOSF invest in Collective Investment Trusts operated by a bank or trust company and groups assets contributed into a commingled investment fund. In addition, the WSOSF invests in the Daily Valued Bond Fund managed by the WSIB, whose audited financials are included in the Daily Valued Fund section of the WSIB's audited financial statements. These "mutual or commingled fund" type investments are not available to the general public and are open-ended funds which issues or reduces shares for purchases and redemptions. The fund manager determines a price per unit of each fund by obtaining fair values of the underlying holdings, using reputable pricing sources and computing an overall net asset value per share.

The commingled equity index fund is invested in publicly traded equity securities, which are passively managed to approximate the capitalization weighted rates of return for the broad global stock market, as defined by the Morgan Stanley Capital International All Country World Investable Market Index (MSCI ACWI IMI). The fund has daily openings and contributions, and withdrawals can be made on any business day. The fund manager, at its discretion, may require withdrawal proceeds to be made partially or wholly in kind. Under certain circumstances the fund manager may choose to suspend valuation and/or the right to make contributions and withdrawals from the fund. Such circumstances include actual or anticipated closure, restriction, or suspension of trading activity in any markets or exchanges where the fund investments are traded, where the purchase, sale, or pricing of the fund's investments would not be reasonably practicable or advisable, or where suspending contributions or withdrawals would be in the best interest of the fund or participants.

The commingled intermediate credit fund is invested in publicly traded debt securities within the WSIB Daily Bond Fund, which is actively managed to meet or exceed the return of the Barclays Capital Intermediate Credit Index. The WSOSF may redeem some or all of their holdings on any business day without restriction (see the Daily Valued Funds audited financials issued by the WSIB for further information).

The following table presents fair value measurements at June 30, 2016:

		Fair Value
INVESTMENTS		
INVESTMENTS MEASURED AT NET ASSET VALUE		
Commingled Equity Index Funds	$	29,813,638
Commingled Intermediate Credit		15,626,302
Total Investments at Net Asset Value		45,439,940
Total Investments Measured at Fair Value	$	45,439,940

Note 5. Summary of Investment Policy

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

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

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

Risk Constraint Standards

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

Scholarship and Endowment Account

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

Permissible Investments – State Matching Funds

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

Asset Allocation

State Matching Funds		
	Target	**Range**
Cash	100%	100

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

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

State Matching Funds - Endowment		
	Target	**Range**
Cash	100%	100

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

Schedule 1: Schedule of Maturities and Credit Ratings

Investment Type	Total Fair Value	Maturity: Less than 1 year	Maturity: 1-5 years	Maturity: 6-10 years	Maturity: More than 10 years	Effective Duration	Credit Rating
Commingled Intermediate Credit	$ 15,626,302	$ 2,229,551	$ 6,903,283	$ 6,386,627	$ 106,841	4.6	Schedule 2
Investments Not Required to be Categorized							
Commingled Equity Index Funds	29,813,638						
Short Term Investment Funds	39,868,484						
Total Investments Not Categorized	69,682,122						
Total Investments	$ 85,308,424						

Schedule 2: Additional Credit Rating Disclosures

Moody's Equivalent Credit Rating	Commingled Intermediate Credit Market Value
Aaa	$ 1,111,313
Aa1	38,125
Aa2	275,850
Aa3	1,654,096
A1	1,699,570
A2	1,903,044
A3	2,064,642
Baa1	2,068,462
Baa2	1,857,808
Baa3	2,157,331
Ba1 and Lower	796,061
Total Fair Value	$ 15,626,302

Schedule 3: Foreign Currency Exposure

Foreign Currency Denomination	Equity Securities	Percent of Total Investments
AUSTRALIAN DOLLAR	$ 692,336	0.8%
BRAZILIAN REAL	239,344	0.3%
CANADIAN DOLLAR	963,569	1.1%
SWISS FRANC	845,984	1.0%
DANISH KRONE	188,234	0.2%
EURO CURRENCY	2,808,468	3.3%
POUND STERLING	1,862,117	2.2%
HONG KONG DOLLAR	1,039,694	1.2%
INDONESIAN RUPIAH	95,429	0.1%
NEW ISRAELI SHEQEL	64,274	0.1%
INDIAN RUPEE	312,010	0.4%
JAPANESE YEN	2,396,021	2.8%
SOUTH KOREAN WON	543,199	0.6%
MEXICAN PESO (NEW)	142,674	0.2%
MALAYSIAN RINGGIT	107,009	0.1%
NORWEGIAN KRONE	73,111	0.1%
RUSSIAN RUBLE	76,563	0.1%
SWEDISH KRONA	308,133	0.4%
SINGAPORE DOLLAR	140,299	0.2%
THAILAND BAHT	87,225	0.1%
NEW TAIWAN DOLLAR	451,420	0.5%
SOUTH AFRICAN RAND	249,712	0.3%
OTHER (MISC)	314,621	0.4%
Total Foreign Currency Exposure	$ 14,001,446	16.5%

DAILY VALUED FUNDS

EideBailly
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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Daily Valued Funds of the State of Washington as managed by the Washington State Investment Board (the Daily Valued Funds), which comprise the statement of net investment position as of June 30, 2016, and the related statement of changes in net investment position for the year then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

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

Auditors’ Responsibility

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

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the investment position of the Daily Valued Funds as of June 30, 2016, and the changes in net investment position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Eide Bailly LLP

Boise, Idaho
September 28, 2016

Management Discussion and Analysis

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

The financial statements and footnotes follow this section of the report. The Statement of Net Investment Position provides information on the types of investments, assets, and liabilities of the DVF as of June 30, 2016. This information is summarized in Table 1. Table 1 also compares the asset, liability, and net investment balances at June 30, 2016, with those at June 30, 2015. The Statement of Changes in Net Investment Position provides information on investment performance and other increases and decreases in the net investment position of the DVF for the year ended June 30, 2016. This information is summarized in Table 2. Table 2 also compares the financial activities of the DVF for the year ended June 30, 2016, with those of the year ended June 30, 2015. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements of the DVF.

Net investment returns for the DVF for the current fiscal year compared to the prior fiscal year are as follows:

Investment Returns	FY 2016	FY 2015
Investment Return Daily Valued Bond Fund	**5.3%**	**1.8%**
Investment Return Daily Valued Savings Pool	**0.9%**	**0.5%**
Investment Return Daily Valued TIPs Fund	**4.6%**	**-1.6%**

As shown in Table 1, the net investment position of the DVF increased by $20.8 million during the fiscal year ended June 30, 2016. Net realized and unrealized gains increased the DVF net investment position by $38.4 million. These gains were the result of positive investment returns in each of the DVF's. Net withdrawals from the fund decreased the investment balances by (88.4) million. The majority of the withdrawals were made from the Bond Fund. The remaining increase was due to net investment income received and reinvested within each fund.

Table 1 - Summarized Net Investment Position

	2016	2015	Dollar Change	Percent Change
Bond Fund Net Investment Position	$ 1,824,952,448	$ 1,815,187,360	$ 9,765,088	0.5%
Savings Pool Net Investment Position	871,859,233	867,230,559	4,628,674	0.5%
TIPS Fund Net Investment Position	244,076,551	237,681,507	6,395,044	2.7%
Net Investment Position	**$ 2,940,888,232**	**$ 2,920,099,426**	**$ 20,788,806**	**0.7%**

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

- The net investment position of the Bond fund increased by $9.8 million. Net withdrawals decreased the balances by $(81.0) million. Net realized and unrealized gains increased Bond Fund balances by $29.8 million. The remaining increase was due to reinvestment of net interest income within the fund.

- The net investment position of the Savings Pool increased by $4.6 million. Withdrawals from the Savings Pool decreased balances by $(3.4) million. The remaining increase was due to reinvestment of net interest income within the fund.
- The net investment position of the Treasury Inflation Protected Security (TIPS) fund increased by $6.4 million. Net withdrawals decreased the balances by $(4.0) million. Net realized and unrealized gains increased the TIPS fund balances by $8.6 million. The remaining increase was net investment income reinvested within the fund.

The global low interest rate environment continued in Fiscal Year 2016, due to central bank policies, slow economic growth, and low inflation. Treasury yields moved up and down for the first six months of the fiscal year, then fell for the last six months. For the full fiscal year, long duration treasuries and TIPS dramatically outperformed short duration ones, as did long duration credits. The Federal Open Markets Committee raised the Fed Funds rate at its December meeting. The Bond Fund performance was positive for the year, and outperformed its benchmark due to duration management and credit selection.

As shown in Table 2, net investment income increased by $81.0 million from the prior year, almost entirely due to increases in net realized and unrealized gains and losses. All asset classes experienced higher investment returns in the current fiscal year compared to the prior year, which contributed to this increase. Net contributions and withdrawals decreased over the prior year by $(336.6) million. The Bond Fund experienced a large contribution from the Guaranteed Education tuition (GET) program in the prior year, which did not recur in the current fiscal year. In addition, the GET program made large withdrawal requests in the current fiscal year to fund withdrawals by GET participants. Due to decreases in college tuition rates, the payout value of GET tuition units decreased substantially during the current fiscal year. Certain account holders were allowed to withdraw their funds at the greater of their contributed funds or the current payout rate without state penalties from September 2015 to December 2016. The GET program is temporarily closed to new enrollments and unit sales.

Table 2 - Summarized Changes in Net Investment Position

	2016	2015	Dollar Change
Net Investment Income			
Interest, Dividends and Other Investment Income	$ 71,417,179	$ 62,751,599	$ 8,665,580
Net Realized and Unrealized Gains (Losses)	38,443,837	(33,542,847)	71,986,684
Less:			
Investment Expenses	(700,839)	(1,024,596)	(323,757)
Net Investment Income	**109,160,177**	**28,184,156**	**80,976,021**
Net Amount Contributed (Withdrawn)	(88,371,371)	248,195,712	(336,567,083)
Net Investment Position - Beginning	**2,920,099,426**	**2,643,719,558**	**276,379,868**
Net Investment Position - Ending	**$ 2,940,888,232**	**$ 2,920,099,426**	**$ 20,788,806**

The fair value of the DVF net investment position is directly impacted by the returns of the various capital markets within which the WSIB invests, and the returns are expected to have a significant effect on financial position and results of operations in the future. However, one of the benefits of diversification gained by investing across various investment types, as well as broadly within an asset class, is the reduction in aggregate volatility of the total investment portfolio. The WSIB makes the asset allocation decisions for the DVF assets.

Daily Valued Funds (DVF) Statement of Net Investment Position - June 30, 2016

See notes to financial statements

	Bond Fund	Savings Pool	TIPS Fund	Total	Percent of Total
ASSETS					
Investments					
CASH AND CASH EQUIVALENTS	$ 20,680,636	$ 134,526,961	$ 494,718	$ 155,702,315	5.3%
DEBT SECURITIES					
Corporate Bonds	1,624,541,390	-	-	1,624,541,390	
U.S. Government and Agency Securities	25,363,485	-	242,872,791	268,236,276	
Guaranteed Insurance Contracts	-	737,308,836	-	737,308,836	
Foreign Government and Agencies	153,371,531	-	-	153,371,531	
Total Debt Securities	1,803,276,406	737,308,836	242,872,791	2,783,458,033	94.7%
Total Investments	1,823,957,042	871,835,797	243,367,509	2,939,160,348	100.0%
Investment Earnings Receivable	14,970,589	53,803	715,926	15,740,318	
Collateral Held Under Securities Lending Agreements	-	-	624,646	624,646	
Total Assets	1,838,927,631	871,889,600	244,708,081	2,955,525,312	
LIABILITIES					
Accounts Payable	1,083	30,367	6,884	38,334	
Payable for Investments Purchased	13,974,100	-	-	13,974,100	
Obligations Under Securities Lending Agreements	-	-	624,646	624,646	
Total Liabilities	13,975,183	30,367	631,530	14,637,080	
NET INVESTMENT POSITION	$ 1,824,952,448	$ 871,859,233	$ 244,076,551	$ 2,940,888,232	

Daily Valued Funds (DVF) Statement of Changes in Net Investment Position - Year Ended June 30, 2016

See notes to financial statements

	Bond Fund	Savings Pool	TIPS Fund	Total
Net Investment Income				
Investment Income:				
Interest, Dividends and Other Investment Income	$ 61,085,980	$ 8,581,138	$ 1,750,061	$ 71,417,179
Net Realized Capital Gains (Losses)	3,772,072	918	(868,434)	2,904,556
Unrealized Gains	26,019,877	-	9,519,404	35,539,281
Less:				
Investment Expenses	(152,319)	(535,278)	(13,242)	(700,839)
Net Investment Income	90,725,610	8,046,778	10,387,789	109,160,177
Net Amount Withdrawn	(80,960,522)	(3,418,104)	(3,992,745)	(88,371,371)
Increase in Net Investment Position	9,765,088	4,628,674	6,395,044	20,788,806
Net Investment Position - June 30, 2015	1,815,187,360	867,230,559	237,681,507	2,920,099,426
Net Investment Position - June 30, 2016	$ 1,824,952,448	$ 871,859,233	$ 244,076,551	$ 2,940,888,232

Notes to Financial Statements

Note 1. Description of Funds and Significant Accounting Policies

Description of Funds

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

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

Participants	Bond Fund	Savings Pool	TIPS Fund
Deferred Compensation Plan	13.3%	99.6%	0.0%
Judicial Retirement Account	Trace	0.4%	0.0%
Washington State Retirement System Defined Contribution Participants	23.6%	0.0%	0.0%
Developmental Disabilities Endowment Trust Fund	0.5%	0.0%	0.0%
Guaranteed Education Tuition Program	40.6%	0.0%	0.0%
Washington State Opportunity Scholarship Fund	0.9%	0.0%	0.0%
Alliance Bernstein Retirement Strategy Funds	21.1%	0.0%	100.0%

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

Basis of Accounting

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

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments and are comprised of short term investment funds which are valued at cost. Accordingly, these investments are excluded from the fair value schedule in Note 5 to the basic financial statements.

Valuation of Investments

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

Revenue Recognition

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

Contributions and Withdrawals

Contributions and withdrawals are recorded when received or paid. There are no restrictions on the amount of contributions or withdrawals by any participant to the DVF.

Use of Estimates

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

Note 2. Fees and Expenses

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

Note 3. Deposit and Investment Risk Disclosures

Custodial Credit Risk

Custodial credit risk is the risk that in the event a depository institution or counterparty fails, the DVF will not be able to recover the value of its deposits, investments, or collateral securities. As of June 30, 2016, investment securities (excluding cash, cash equivalents, and repurchase agreements held as securities lending collateral) are registered and held in the name of the WSIB for the benefit of the DVF participants, and are not exposed to custodial credit risk. There are no general policies relating to custodial credit risk.

Interest Rate Risk

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

Schedule 1 and 2 provide information about the interest rate risks associated with the DVF investments as of June 30, 2016. The schedules display various asset classes held by maturity in years, effective durations, and credit ratings. Fixed income securities are reported using the average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity for these securities, taking into account possible prepayments of principal.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The DVF's investment policies limit the fixed income securities to investment grade or higher at the time of purchase. Investment grade securities are those fixed income securities with a Moody's rating of Aaa to Baa or a Standard and Poor's rating of AAA to BBB. The DVF rated debt investments as of June 30, 2016, were rated by Moody's and/or an equivalent national rating organization. Investment types with multiple ratings are presented in Schedule 2, using the Moody's rating scale.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. Revised Code of Washington (RCW) 43.33A.140 requires corporate fixed income securities cost may not exceed 3 percent of the DVF fair value at the time of purchase, nor shall its fair value exceed 6 percent of the DVF Funds' fair value at any time. There was no concentration of credit risk that exceeded these limits as of June 30, 2016.

Foreign Currency Risk

Foreign currency risk is defined as any deposits or investments that are denominated in foreign currencies, which bear a potential risk of loss arising from changes in currency exchange rates. The DVF have no formal policy to limit foreign currency risk. All securities held in the DVF are denominated in U.S. dollars and, accordingly, no foreign currency exposure exists at June 30, 2016, or during the fiscal year.

Note 4. Securities Lending

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

The fair value of the securities on loan at June 30, 2016, was approximately $15.8 million. The securities on loan remain in the Statement of Net Investment Position in their respective categories. At June 30, 2016, cash collateral received totaling $0.6 million is reported as a securities lending obligation, and the fair value of the re-invested cash collateral totaling $0.6 million is reported as security lending collateral in the Statement of Net Investment Position. Securities received as collateral where the DVF's does not have the ability to pledge or sell the collateral unless the borrower defaults, are not reported as assets and liabilities in the Statement of Net Investment Position. Total cash and securities received as collateral at June 30, 2016, was $16.6 million.

Debt securities were loaned and collateralized by the DVF's agent, with cash and U.S. Government or U.S. Agency Securities including, U.S. Agency Mortgage Backed Securities (exclusive of letters of credit). When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest of the loaned securities. The following table summarizes the securities held from reinvestment of cash collateral and securities held as collateral at June 30, 2016.

In Thousands	Cash Collateral	Non Cash Collateral	Total
Mortgage Backed Securities	$ -	$ 16,015.4	$ 16,015.4
Repurchase Agreements	248.2	-	248.2
Yankee CD	138.8	-	138.8
Commercial Paper	105.6	-	105.6
US Treasuries	5.9	-	5.9
Cash Equivalents and Other	126.1	-	126.1
Total Collateral Held	**$ 624.6**	**$ 16,015.4**	**$ 16,640.0**

During Fiscal Year 2016, securities lending transactions could be terminated on demand by either the DVF or the borrower. As of June 30, 2016, the cash collateral held had an average duration of 17.2 days and an average weighted final maturity of 73.4 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 2016, there were no significant violations of legal or contractual provisions, no failures by any borrowers to return loaned securities or to pay distributions thereon. Further, during Fiscal Year 2016 the DVF's incurred no losses resulting from a default by either the borrowers or the securities lending agents.

Note 5. Fair Value

GASB Statement No. 72, Fair Value Measurement and Application, (Statement 72) specifies a hierarchy of valuation classifications based on whether the inputs to the valuation techniques used in each valuation classification are observable or unobservable. These classifications are summarized in three broad levels listed below:

- Level 1 – Unadjusted quoted prices for identical instruments in active markets.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in markets that are active; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs other than quoted prices that are observable for the assets or liabilities (such as exchange rates, financing terms, interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks, and default rates).
- Level 3 – Valuations derived from valuation techniques in which significant inputs or significant value drivers are unobservable.

Inputs used to measure fair value might fall in different levels of the fair value hierarchy; in which case, the DVF's defaults to the lowest level input that is significant to the fair value measurement of each investment, with Level 3 being the lowest level. The determination of fair value of an investment within the hierarchy of classifications above is not necessarily an indication of the risk or liquidity associated with the investments. In determining the appropriate levels, the DVF performed a detailed analysis of the assets and liabilities that are subject to Statement 72. Valuation policies and procedures are managed by the Investment Accounting and Administration unit of the WSIB, which regularly monitors fair value measurements. Fair value measurements are prepared and reviewed monthly, and any third party valuations are reviewed for reasonableness and compliance with relevant accounting standards.

The DVF receive fair value prices for debt securities directly from their custodian bank, SSC. These prices are obtained from reputable pricing sources with the primary vendor of Interactive Data Corporation. The SSC performs the following tolerance and review checks on the pricing data on a daily basis:

Fixed Income

- Researches price changes from the previous day of 2 to 5 percent or greater with corroborating evidence required from the primary pricing vendor.
- Prices that remain unchanged in excess of 10 days are sent to the appropriate vendor for review and verification.

The following table presents fair value measurements as of June 30, 2016:

		Fair Value Measurements Using:		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
INVESTMENTS				
DEBT SECURITIES				
Corporate Bonds	$ 1,624,541,390	$ -	$ 1,624,541,390	$ -
US and Foreign Government and Agency Securities	421,607,807	-	421,607,807	-
Total Debt Securities	2,046,149,197	-	2,046,149,197	-
Total Investments Measured at Fair Value	$ 2,046,149,197			
OTHER ASSETS (LIABILITIES) AT FAIR VALUE				
Collateral Held Under Securities Lending Agreements	$ 624,646	$ -	$ 624,646	$ -
Obligations Under Securities Lending Agreements	(624,646)	-	(624,646)	-
Total Other Assets (Liabilities) Measured at Fair Value	$ -	$ -	$ -	$ -

Debt Securities (Level 2)

Investments classified as level 2 in the above table were comprised of publicly traded debt securities. These securities are sourced from reputable pricing vendors, using models that are market-based measurements representing their good faith opinion as to the exit value of a security, in an orderly transaction under current market conditions. Such models take into account quoted prices, nominal yield spreads, benchmark yield curves, prepayment speeds, and other market corroborated inputs.

Other Assets and Liabilities:

Collateral held and obligations under securities lending agreements are detailed in Note 4 to the basic financial statements. Cash collateral securities (and the offsetting obligation) are valued by the DVF's lending agent and sourced from reputable pricing vendors, using models that are market-based measurements representing their good faith opinion as to the exit value of a security, in an orderly transaction under current market conditions. Such models take into account quoted prices, nominal yield spreads, benchmark yield curves, prepayment speeds, and other market corroborated inputs.

Note 6. Summary of Investment Policy

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

Bond Fund

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

Savings Pool

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

TIPS Fund

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

Schedule 1: Schedule of Maturities and Credit Ratings

Investment Type	Total Fair Value	Maturity: Less than 1 year	1-5 years	6-10 years	More than 10 years	Effective Duration *	Credit Rating
Corporate Bonds	$ 1,624,541,390	$ 220,560,366	$ 744,351,706	$ 647,151,670	$ 12,477,648	4.5	Schedule 2
U.S. Government and Agency Securities	268,236,276	-	116,135,117	96,756,253	55,344,906	5.6	Aaa
Guaranteed Insurance Contracts	737,308,836	243,639,207	493,669,629	-	-	N/A	Not Rated
Foreign Government and Agencies	153,371,531	18,146,580	51,683,506	83,541,445	-	5.2	Schedule 2
	2,783,458,033	$ 482,346,153	$ 1,405,839,958	$ 827,449,368	$ 67,822,554		
Investments Not Required to be Categorized							
Cash and Cash Equivalents	155,702,315						
Total Investments Not Categorized	155,702,315						
Total Investments	$ 2,939,160,348						

* Excludes cash and cash equivalents

Schedule 2: Additional Credit Rating Disclosures

Moody's Equivalent Credit Rating	Total Fair Value	Corporate Bonds	Foreign Government and Agency Securities
Aaa	$ 102,882,132	$ 72,393,972	$ 30,488,160
Aa1	4,399,644	4,399,644	-
Aa2	31,833,040	10,486,695	21,346,345
Aa3	190,882,754	122,892,987	67,989,767
A1	196,130,572	193,030,423	3,100,149
A2	219,611,474	219,611,474	-
A3	238,259,800	238,259,800	-
Baa1	238,700,671	228,250,671	10,450,000
Baa2	214,391,171	209,028,671	5,362,500
Baa3	248,956,123	238,541,513	10,414,610
Ba1 or Lower	91,865,540	87,645,540	4,220,000
Total	$ 1,777,912,921	$ 1,624,541,390	$ 153,371,531

WASHINGTON STATE INVESTMENT BOARD

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