WASHINGTON STATE INVESTMENT BOARD

THIRTY-SIXTH ANNUAL REPORT

2017

INTRODUCTION

LETTER OF TRANSMITTAL

Today's investment landscape is a study in sharp contrasts. Escalating equity prices have persisted against a backdrop of lower long-term market assumptions. Economies are growing, but inflation remains mild. Steady growth in jobs is clouded by prolonged issues of economic inequality. Remarkable innovation at some companies is dampened by failure of basic governance practices at others. Gradual progress in emerging economies is offset by unrest in developed economies. At nearly every turn, risk and opportunity coexist, sometimes indistinguishably.

It's an unnerving environment for many investors. It creates ample opportunity for second-guessing and knee-jerk tendencies to either flee from or dive headlong into risk. But it's also a time in which a steadfast, proven, long-term strategy can prevail. At the WSIB, a topsy-turvy mix of economic signals only reinforces the importance of our long-term investment strategy and the need to remain focused on the financial needs of our beneficiaries. Our advantage is a disciplined fiduciary role aimed at generating investment results over a span of generations rather than merely over a few market cycles. We are well-positioned to recognize market noise without succumbing to the disruptive uproar.

Our state's retirement plan beneficiaries and other stakeholder groups such as Labor & Industries, the Developmental Disabilities Endowment Fund and the Permanent Funds for colleges and universities are depending on investment outcomes driven by decades-long strategies. Our success is not shaped by quarterly market movements or fleeting investor behavior. Instead, we adhere to a published set of investment beliefs, which represent our views on risk, diversification, fund expenses, sustainability and other vitals. One of my favorites is: "Our fund should be compensated at least fairly for the investment risk it takes."

But with today's market forces, even the most disciplined of investors will face no shortage of challenge and upheaval. Investment strategies must confront an unprecedented array of environmental, social and governance (ESG) issues that represent a dynamic wave of risk factors. Financial performance depends as much on reputational issues as it does on revenue streams and debt ratios. We must be able to discriminate among both financial and non-financial risk factors in order to prudently assign and manage capital. As responsible stewards of public assets, we also must recognize the importance of engagement with our investment partners and the corporations that make up our portfolios. We must work constructively with other like-minded investors to protect shareholder voting rights when, for example, some public companies act to limit the ability of share owners to vote their shares.

Encouragingly, more institutional investors are moving toward long-term disciplines. Many of our investment partners and peer funds are more attuned to the value of a diversity of ideas, gender and ethnic backgrounds in our industry. More investment managers and company board members are willing to ask about the risks related to climate issues or social factors. More public plans are citing engagement as a better fiduciary solution than the whip-saw of divestment from unpopular investment sectors.

At the WSIB, our staff is working diligently to fulfill a clear mission on behalf of our beneficiaries. While we may adjust our investment exposures in the face of current market conditions, we won't do so reactively. In even the most unclear of conditions, we remain committed to maximizing returns at prudent levels of risk over a multi-generational time horizon. This will allow us to best serve our beneficiaries while contributing to a retirement system that remains top-ranked for funding levels, performance and stability for the long run.

Sincerely,

Theresa Whitmarsh, Executive Director

MESSAGE FROM THE CHAIR

Those of us serving on the Washington State Investment Board (WSIB) are proud to play an important governance role for our state's retirement plan system. Our board members come from a variety of backgrounds and offer a rich depth of expertise. Some are relatively new to their seats; others have been fulfilling this role for many years. Together, we provide a balance of fresh perspective, strong beneficiary representation and experienced professional views. We also share a single, common interest on behalf of our beneficiaries.

The Board wants to ensure our state enjoys a well-funded retirement system and a fully accountable investment program that produces strong long-term investment returns so that beneficiaries and other stakeholders achieve a healthy financial future. We have created a globally respected program because of a singular focus on a core mission – maximizing long-term returns at a prudent level of risk. Those words express a simple and clear-headed concept. But in practice, implementing such a mission can be far from simple. Market uncertainties, geopolitical unrest, shifting social and political interests, competitive pressures all come to bear on our investment program. Historically, we have relied on a strong, honest and longstanding relationships to build an investment program focused on global diversification, private and public markets exposure, and long-term results. In various market environments, our board has consistently recognized that risk must be managed rather than averted, and returns must be projected over time rather than promised at shorter, unpredictable intervals.

Our job here is to help state and public employees, teachers, law enforcement officers, firefighters and others achieve a secure and beneficial financial future so they, in turn, can help their own families and our communities for the long run. Our state's retirement system results in approximately $4 billion in benefit payments each year, or about $333 million per month. Our projections show that over future decades, our investments will generate enough returns to cover at least 75% of the full cost of a beneficiary's retirement benefits. This eases the costs otherwise borne by taxpayers, public agencies, education programs and public employees. The WSIB's investment earnings also help cover more than 2.5 million workers under the state Department of Labor & Industries' workers' compensation program, and they generate vital benefits for families relying on the $60 million Developmental Disabilities Endowment Fund.

As of the end of this fiscal year (FY), the rate of return (net of fees) for the CTF since inception is 8.73 percent. Three-, five-, and 10-year return rates are 6.91 percent, 9.95 percent, and 5.47 percent, respectively. These results put us among the top performers in public pension programs and give our beneficiaries confidence that we are well-equipped to fulfill our mission for generations.

We remain committed to an investment discipline that serves us well during both favorable and unfavorable economic conditions. We must not allow market difficulties to hamper our willingness to invest in promising opportunities; likewise, we must not allow market hubris to cloud our understanding of risks. We must continue to ensure transparency and integrity in order to earn the trust and support of our stakeholders. We are pleased to present the WSIB's Annual Report for the fiscal year ending June 30, 2017.

Sincerely,
Kelly Fox, 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

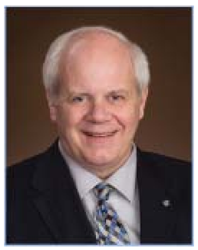
The Audit Committee has oversight of audits of Board activities and operations: compliance, risk management, internal/external audits, financial reporting, and internal controls. It is also responsible for development of policies and procedures for corporate governance and oversight of the Conflict of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


Tracy Guerin


Joel Sacks


Kelly Fox
Chair


Judy Kuschel
Vice-Chair


Yona Makowski


Stephen Miller


Arlista D. Holman


Representative
Timm Ormsby


Senator
Mark Mullet


David
Nierenberg


William A.
Longbrake


Richard
Muhlebach


Mary Pugh


George Zinn

EXECUTIVE MANAGEMENT

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 investment compliance. This division also provides agency-wide risk management, information systems management, 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.

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
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
Evergreen Pacific Partners
First Reserve Corp.
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
GTCR
H.I.G. Ventures
HarbourVest Partners
Hellman & Friedman
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
Oak Investment Partners
Oaktree Capital Mgmt.
OVP Venture Partners
PAG Asia Capital
Palamon Capital Partners
Permira
Polaris Venture Partners
Providence Equity Partners
Rhone Capital
Rhone Capital
Roark Capital Group
Silver Lake Partners
Southern Cross Group
Spark Mgmt. Partners
Stone Point Capital
TA Associates
Tailwind Capital Partners
Technology Crossover Ventures
The Riverside Company
Three Arch Partners
TowerBrook Capital Partners
TPG Partners
Trident Capital Partners
Triton Partners
U.S. Venture Partners
Union Square Ventures
Unitas Capital
VantagePoint Venture Partners
Vestar Capital Partners
Vivo Ventures
Warburg Pincus

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

Tangibles Partners

Agriculture Capital
Alinda Capital Partners
Barings
EnerVest, Ltd
Geronimo Energy
Global Infrastructure Partners
Highstar Capital
Homestead Capital
I Squared Capital
International Farming Corporation
Laguna Bay Pastoral Company
Lime Rock Resource
Orion Resource Partners
Prostar Capital
Reservoir Resource Partners
Sheridan Production Partners
Silver Creek Advisory Partners
Stonepeak Advisors
Teays River Investments
UBS Farmland Investors
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 Partners
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 a cornerstone of asset stewardship. Through active support of corporate governance measures and prudent proxy voting policies and activities, the WSIB works to enhance shareowner value and support our long-term investment objectives and our aim of investing with integrity, prudence and skill.

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. 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. The WSIB also views engagement with investee companies and other stakeholders, including collectively with other investors and industry bodies, as a powerful asset stewardship tool.

The recent rise of multi-voting class share structures, including Snap Inc.'s March 2017 IPO that set a precedent by offering only non-voting shares to public investors, has limited shareholder access to proxy voting and engagement. Investors, index providers, exchanges and regulators have rightfully focused on how to manage this issue, and the major index providers have consulted with the investment community on how this issue should be integrated into index constituent make-up. As a result of these consultations, S&P Dow Jones announced that its Composite 1500 would no longer add companies with multiple share class structures, and FTSE Russell determined that a 5% minimum voting rights hurdle would apply to all its standard indexes. The outcome of MSCI's consultation on this issue is pending.

Proxy season 2017 major trends included a decline across the board in the number of shareholder proposals, particularly related to compensation, traditional governance issues and proxy access in line with companies adopting more of these provisions over the past few years. Compensation-related trends include a move toward annual say-on-pay votes and broad investor support of those proposals. Levels of support for climate change-related resolutions continue to rise year-on-year.

Proxy access shareholder proposals have been on the rise and have dominated governance conversations in recent years; however, in 2017 this trend decreased as more companies chose to adopt proxy access provisions instead of taking them to a vote. In 2017, the WSIB voted on 56 proxy access shareholder proposals, supporting 32 of those (57 percent), as compared to supporting 59 of 76 (78 percent) of similar proposals in 2016. This represents a 26 percent decline in the number of proxy access proposals brought to the WSIB for a vote. 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 2017. Average support for related proposals jumped from 32 percent in 2016 to 40 percent in 2017, according to our proxy advisor Glass Lewis. The WSIB supported 15 of the 19 climate-related proposals (79 percent) and 11 of the 12 proposals asking companies to prepare sustainability reports (92 percent).

The WSIB believes that in order to maximize investment returns we must remain vigilant in overseeing 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 approach.

Proxy voting is a constructive means of influence and input for the WSIB. Between July 1, 2016 - June 30, 2017 the WSIB voted on 3,084 meetings globally, including 2,795 in the US. Proxy votes were cast on 28,567 individual proposals dealing primarily with election of directors, ratification of auditor, compensation plans and shareholder proposals. During that period, the WSIB withheld or voted against the management recommendation as follows:

- 1,481 of 18,040 of individual director election proposals (8.2 percent)
- 365 of 2,328 advisory votes on executive compensation (15.7 percent)
- 23 of 261 equity compensation plans (8.8 percent)

ENTERPRISE RISK MANAGEMENT

A cornerstone of a successful investment strategy is effective risk management. Enterprise Risk Management (ERM) encompasses 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 WSIB's risk framework includes defined key risks, associated risk appetite statements and risk assessments designed to anticipate potential impact on the agency's ability to achieve strategic objectives. The ERM program supports a risk culture where staff are empowered to identify, evaluate, and report risks. Risks are seen as opportunities for success as well as failure.

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 the risk of 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	$ 14,759,046	$ 12,419,501	$ 2,339,545
Benefits	3,491,097	3,199,038	292,059
Professional Service Contracts	367,563	182,327	185,236
Goods & Services	3,054,691	3,478,386	(423,695)
Travel	1,801,972	540,501	1,261,471
Equipment	105,816	218,292	(112,476)
Treasury Note	316,030	147,449	168,581
Subtotal Appropriated	$ 23,896,215	$ 20,185,494	$ 3,710,721

NON-APPROPRIATED	Budget	Expenditures	Budget Variance
Public Equity	$ 54,016,750	$ 60,338,495	$ (6,321,745)
Private Equity	239,869,140	207,463,596	32,405,544
Real Estate	51,025,680	33,325,273	17,700,407
Tangible Assets	16,237,132	42,135,191	(25,898,059)
Innovation Portfolio	4,070,520	79,955	3,990,565
General Consultants	1,015,000	547,662	467,338
Staff Consultants	1,195,000	673,110	521,890
Advisory Services Consultants	500,000		500,000
Legal Fees	1,430,000	998,036	431,964
Custodian Bank Fees	500,000	61,060	438,940
Securities Lending	7,111,437	6,493,371	618,066
Cash Management	4,092,578	3,155,830	936,748
Cash Overlay	900,000	591,209	308,791
Portfolio Verification - Shadow Investment Accounting System	1,402,500	655,398	747,102
Memberships	87,350	203,397	(116,047)
Research Services	2,549,000	3,191,288	(642,288)
Subtotal Non-Appropriated	386,002,087	359,912,871	26,089,216
TOTAL	$ 409,898,302	$ 380,098,365	$ 29,799,937

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.

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 year, the fund has grown from $82.7 billion to $93.3 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 Bloomberg Barclays Universal Index.

The yield on the 10-year treasury increased, starting the fiscal year at 1.49 percent, increasing to 2.43 percent by the end 2016, and then moving up and down before finishing at 2.30 percent on June 30, 2017. It was at a low of 1.37 percent in early July 2016 and a high of 2.61 percent in mid-March 2017.

Highlights

- The portfolio outperformed the Barclays Universal Index for the year, returning 2.42 percent versus 0.91 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 $2.2 billion in sales.
- During fiscal year, $1.4 billion in cash was transferred out of fixed income to other asset classes.

Tangible Assets

The tangible asset portfolio invests in physical assets 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

- The Board approved investments in five funds totaling $1.1 billion during FY 2017.
- $1.09 billion of committed capital was drawn during the fiscal year.
- $463 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 long 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 6.11 percent versus the WSIB's return benchmark for real estate of 8.00 percent over a rolling 10-year period. The portfolio's 5-year return was 13.11 percent, and the 20-year return was 10.88 percent. Over the past year, the real estate portfolio's return was 10.12 percent, compared to the NCREIF Index's return of 7.27 percent.
- WSIB strong returns for FY 2017 were driven by several factors, including appreciation due to strong tenant demand for nearly all types of real estate, and completion of a number of properties previously under development. Investments in the 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 employs both passive U.S. equity and passive international (developed and emerging) equity in order to maintain policy weights in each area. 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 negative returns in the prior fiscal year, in FY 2017, equity markets posted strong gains with the global equity market returning 19.39 percent, compared to -3.54 percent and 1.11 percent rises in the two previous fiscal years. The U.S. equity markets had significant gains but lagged the performance of non-U.S. developed and emerging markets, returning 18.43 percent over the year. Emerging markets posted the largest returns at 22.82 percent after the prior fiscal year returns being negative. Non-U.S. developed markets performance was in-between that of emerging markets and U.S. markets with a 20.43 percent return.   In recent years, strength in the U.S. dollar presented a significant headwind for non-U.S. and emerging markets equity, but that was not the case in the past fiscal year. Non-U.S. developed markets and emerging markets were also at more attractive valuation levels after prior fiscal year performance being negative. Around the world, continued though modest growth and continued quantitative easing contributed to a favorable environment for equity returns.

That said, the global macro-economic environment continues to deal with many concerns including macro-economic, political, and policy uncertainty in many major countries and high valuation levels for the U.S. equity market. 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 is structured to protect capital in periods of negative returns and keep pace during period of positive returns. It is not unexpected that in a year in which global equity markets returned over 19%, as experienced in FY 2017, the public equity portfolio would stay close to that return but not outperform. In this period the overall public equity portfolio posted a 18.95 percent return versus a 19.39 percent return for the benchmark, detracting -44 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 has protected on the downside in past fiscal years. Long-term performance continues to be the focus, and the program has added value 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 underperformed its benchmark by -55 basis points (bps) with a return of 17.88 percent versus the benchmark's 18.43 percent return. The developed international equity program lagged the index by -24 bps with the portfolio returning 19.50 percent while the benchmark had a 19.74 percent return.
- The active global equity program performed in-line with the benchmark but slightly below at -12 bps. The global portfolio returned 19.27 percent versus the benchmark return of 19.39 percent. In this segment 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. For all three of these segments – U.S. equity, developed non-U.S. equity, and global equity – the reasons for slight underperformance are as stated above. In markets that surge ahead by 17-20 percent, the program is likely to stay close to the benchmark but not outperform.
- The emerging markets equity program underperformed its benchmark by -180 bps, returning 21.02 percent versus the benchmark return of 22.82 percent, which is somewhat more significant. WSIB's investment managers employ a disciplined investment approach that includes attention to valuation levels. The most significant underweight in the program was to information technology stocks in China such as TenCent and Alibaba, all of which are significant weights in the benchmark and had very strong performance over the fiscal year.
- 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, 2017, the private equity portfolio was valued at $19.5 billion, or 20.9 percent of the CTF, compared with $17.4 billion and 21.1 percent at the previous fiscal year-end. The value increase from the prior year reflects that appreciation of portfolio investments more than offset the $1.1 billion of distributions received in excess of capital contributions during the period. The program has been strongly cash flow positive each year since 2011.

During the fiscal year, the WSIB closed on nearly $3.1 billion of new commitments across 9 private equity funds, one of which represented a new general partner relationship. Capital drawn for investment was approximately $0.8 billion higher 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 $0.3 billion higher than distributions in the prior fiscal year.

Highlights

- $3.1 billion in new commitments to funds were closed during FY 2017 compared to $3.6 billion in FY 2016.
- $ 3.4 billion of capital was drawn for investment during the fiscal year compared to $2.6 billion in the prior year.
- $4.5 billion in distributions were returned to the CTF in FY 2017 comparable to the $4.2 billion distributed in FY 2016.

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

- A commitment to a growth equity and middle-market impact investment fund was approved for the Innovation Portfolio during the fiscal year.

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: $2.8 Billion

SERS 3: $1.9 Billion

TRS 3: $8.3 Billion

Deferred Compensation Program: $4.1 Billion

Judicial Retirement Account: $10.6 Million

Labor and Industries' Funds

$16.5 Billion

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

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

Permanent Funds

$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

$60.0 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

$77.5 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 $1.9 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 $288 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 Investment Position, which reports the assets by general asset category and the related liabilities as of June 30, 2017, and the Statement of Changes in Net Investment Position, which reports the contributions to, withdrawals from, and investment earnings for the fiscal year ending June 30, 2017.

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, 2017, 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, 2017, 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 $39.3 billion (42.1% of total investments) as of June 30, 2017, 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 27, 2017

www.eidebailly.com

877 W. Main St., Ste. 800 | Boise, ID 83702-5858 | T 208.344.7150 | F 208.344.7435 | EOE

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, assets, and liabilities of the Retirement Funds, as of June 30, 2017. 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, 2017. The following table compares the net investment position of each major investment classification at June 30, 2017, with those at June 30, 2016. In addition, they summarize the changes in each major investment classification for the fiscal year ended June 30, 2017 and 2016, as well as a comparison of investment performance, the results of financial operations, and other relevant information between the two reporting periods. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements of the Retirement Funds.

As shown in the following table the net investment position of the Retirements Funds increased by $10,644.8 million during the fiscal year ended June 30, 2017. Net withdrawals from the Retirement Funds during the current fiscal year decreased net investment position by $(915.2) million. Net investment income increased net investment position by $11,560.0 million and was reinvested in the various asset classes of the Retirement Funds.

Net investment income increased by $9,620.6 million during the current fiscal year as compared to the prior year, mainly from large increases in net realized and unrealized gains and losses. This was the result of overall increased investment returns from the previous year across all asset classes except debt securities. The current fiscal year return for the Retirement Funds was 13.4 percent compared to the prior fiscal year return of 2.7 percent. The alternative asset returns reflected in the total returns are lagged by one quarter as of March 31 of each year, which is standard practice due to availability of data within this asset class. The increase in total returns was largely due to substantial increases in investment returns in the equity and alternative asset portfolios. The main driver of increased investment returns over the prior fiscal year in these portfolios was a substantial rise in investment prices and valuations in those markets. The increase in returns was partially offset by decreases in investment returns over the prior fiscal year in the debt portfolio due to a rising interest rate environment.

Net withdrawals from the Retirement Funds decreased by $(29.9) million from the previous fiscal year. During the current fiscal year, there was a general overall salary increase from increased membership in the retirement system, as well as, an overall increase in the employee salaries. Contributions are determined by the salary base and, accordingly, DRS collected additional funds as contributions towards retirement benefits. This decreased the amount of withdrawals needed to fund benefit payments in the current fiscal year.

Transfers between asset classes are done periodically to fund withdrawal requests by the Retirement Funds and to rebalance the Commingled Trust Fund (CTF) portfolio to maintain strategic investment targets established by the WSIB. These transfers can vary significantly from year to year based on the cash needs of the Department of Retirement Systems (DRS) and investment returns impacting the various asset classes.

Investment related receivables and payables, which include open foreign exchange contracts, investments purchased and sold pending settlement over year end, income receivables and expenses payable, are reflected in each asset class's net investment position. These balances fluctuate from year to year based on invested balances or trading activity. Investment managers use spot and forward currency contracts in connection with the cash overlay program, as well managing trade settlements in foreign markets. The balances in these open foreign exchange contracts fluctuate based on the trading needs of the managers, as well as the market exposure needed within the cash overlay program. Accordingly, these balances have little correlation to invested balances. Pending trade balances vary due to fluctuations in unsettled securities each year. 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 and can vary substantially from year to year. Investment income receivables and investment expenses payable generally fluctuate within each asset class based on the invested balances each year.

Summarized Change in Net Investment Position and Returns by Asset Class (in Millions)

	Fiscal Year End June 30, 2017					Fiscal Year End June 30, 2016					Year Over Year Change	
	Cash and Cash Equivalents	Debt Securities (*)	Equity Securities (*)	Alternative Assets	Total	Cash and Cash Equivalents	Debt Securities (*)	Equity Securities (*)	Alternative Assets	Total	Increase (Decrease)	Percent Change
Beginning Net Investment Position (*)	$ 1,521.7	$ 17,990.5	$ 29,851.2	$ 33,326.3	$ 82,689.7	$ 1,608.7	$ 17,759.3	$ 30,235.8	$ 32,091.6	$ 81,695.4	$ 994.3	1.2%
Investment Income:												
Interest, Dividends, and Other Investment Income	11.2	627.8	584.6	894.9	2,118.5	5.0	640.9	536.3	678.2	1,860.4	258.1	13.9%
Realized and Unrealized Gains (Losses)	232.1	(208.7)	5,140.2	4,670.4	9,834.0	39.0	191.8	(1,245.7)	1,428.1	413.2	9,420.8	2280.0%
Less: Investment Expenses	(16.8)	(2.4)	(67.2)	(306.1)	(392.5)	(17.2)	(1.5)	(59.2)	(256.3)	(334.2)	58.3	17.4%
Net Investment Income	226.5	416.7	5,657.6	5,259.2	11,560.0	26.8	831.2	(768.6)	1,850.0	1,939.4	9,620.6	496.1%
Net Amount Contributed	(915.2)	-	-	-	(915.2)	(945.1)	-	-	-	(945.1)	(29.9)	-3.2%
Transfers Between Asset Classes	624.9	(1,410.0)	37.7	747.4	-	831.3	(600.0)	384.0	(615.3)	-	NA	NA
Ending Net Investment Position (*)	**$ 1,457.9**	**$ 16,997.2**	**$ 35,546.5**	**$ 39,332.9**	**$ 93,334.5**	**$ 1,521.7**	**$ 17,990.5**	**$ 29,851.2**	**$ 33,326.3**	**$ 82,689.7**	**$ 10,585.0**	**12.8%**
Increase (Decrease) in Net Investment Position	**$ (63.8)**	**$ (993.3)**	**$ 5,695.3**	**$ 6,006.6**	**$ 10,644.8**							
Percentage Change in Net Investment Position	**-4.2%**	**-5.5%**	**19.1%**	**18.0%**	**12.9%**							
One Year Time Weighted Return - June 30, 2017	**0.7%**	**2.4%**	**19.0%**	**13.9%**	**13.4%**							
One Year Time Weighted Return - June 30, 2016	**0.2%**	**4.8%**	**-2.6%**	**6.5%**	**2.7%**							

Debt and equity securities Include cash balances used for trading purposes
Cash and Cash Equivalents Includes cash balances used for liquidity purposes and cash overlay futures and forwards exposure in equity and debt securities
Alternative asset returns are lagged by one quarter and cover the one year period ended March 31st
(*) Net investment position includes accrued income, accrued expenses, and pending trades within each asset class

The following summarizes the changes in net investment position for each main investment category in the previous table:

- ***Cash and cash equivalents*** include cash held for overall liquidity purposes in order to fund withdrawal requests by DRS, fund capital calls in the alternative asset portfolio, and asset class rebalancing to strategic targets. Cash balances used for trading in the debt and equity portfolios are excluded from cash and cash equivalents in the previous table. In addition, cash balances include the investments and activity of the cash overlay program within the CTF. This program equitizes cash balances by investing in futures and forward contracts in the underweight asset class within the debt and equity portfolio. The cash overlay program is prohibited from using leverage to achieve desired results.

  The net investment position of the cash and cash equivalents portfolio decreased by $(63.8) million. These balances fluctuate within policy ranges of 0.0 percent to 3.0 percent of the total CTF portfolio as asset allocation decisions are made based on the cash needs of DRS and invested balances in relationship to strategic targets.

  Cash returns for the one year period ended June 30, 2017, net of the returns in the overlay program was 80 basis points. The substantial increase over the prior year return of 31 basis points increased interest income by $6.2 million as compared to the prior fiscal year. Short-term interest rates have risen over the past fiscal year as a result of Federal Reserve Actions. The Federal Reserve has increased the target range for the federal funds rate three times during the current fiscal year for a total of 75 basis points.

Net realized and unrealized gains within the cash portfolio reflect the activity in the cash overlay program. The cash overlay program returned 23 basis points in the current fiscal year, as compared to the prior year return of 4 basis points. The substantial increase in returns resulted in an increase of $193.2 million in net realized and unrealized gains within the cash portfolio. While the size of the overlay exposure varies in response to the amount of cash the CTF holds, the average exposure was roughly 1.6 percent of the CTF's market value, with a range of 1.3 percent to 2.2 percent. The global equity market returned 19.4 percent as measured by the Morgan Stanley Capital International (MSCI) All Country World Investable Market Index for the one year period ending June 30, 2017. The strong global equity performance had a positive impact on the cash overlay program for the fiscal year ending June 30, 2017.

- ***Debt securities*** net investment position decreased by $(993.3) million. Interest income net of investment expenses of $625.4 million was reinvested to debt securities during the current fiscal year. Net realized and unrealized losses decreased balances in this asset class by $(208.7) million. Rebalancing transfer of $(1,410.0) million were made to fund withdrawal requests by DRS and fund capital calls in the alternative asset portfolio. The net investment position and performance of debt securities includes $223.8 million of cash balances used for trading purposes.

  The average coupon rate at June 30, 2017, was 3.7 percent for the current fiscal year compared to the prior year rate of 3.6 percent. Despite an increase in the average coupon rate over the previous fiscal year, interest income on fixed income securities declined by $(13.1) million. The average balances in fixed income securities decreased due to transfers to other asset classes and market related losses causing the decline in interest income over the previous year.

  The debt portfolio returned 2.4 percent during the current year which was a substantial decrease over the prior year return of 4.8 percent. This decrease in returns resulted in a decrease of net realized and unrealized gains and losses of $(400.5) million over the prior fiscal year. The decrease in investment returns resulted from a rising interest rate environment during fiscal year end June 30, 2017. Generally, higher yields on debt securities translated to lower bond prices, while an improved economic outlook resulted in tighter yield spreads. Credit bonds outperformed treasuries. Lower credit quality and emerging market credit bonds performed the best of all. For the twelve months ended June 30, 2017, long maturity treasuries dramatically underperformed short maturity ones, while longer maturity credit bonds generally outperformed shorter maturity credits. Performance for the Retirement Funds fixed income portfolio outperformed its benchmark by 151 basis points, primarily due to the funds greater exposure to emerging markets.

  Reflecting general political uncertainty in the United States, U.S. Treasury yields increased in the months leading up to the election, and then rose sharply after the election into the end of the year with the anticipation of new fiscal policies for tax reform, infrastructure spending, trade, and health care. For the last six months of the fiscal year, interest rates generally moved up and down around the year end level. Even with higher yield levels, the global low interest rate environment persisted for the fiscal year, due to central bank policies, modest economic growth, and low inflation.

- ***Equity securities*** net investment position increased by $5,695.3 million. Dividend income net of investment expenses of $517.4 million was reinvested to equity securities during the current fiscal year. Net realized and unrealized gains increased balances in this asset class by $5,140.2 million. The remaining increase was due to a rebalancing transfer made into the equity portfolio. The net investment position and performance of equity securities includes $555.9 million of cash balances used for trading purposes.

  Dividend income net of expenses increased $40.3 million over the previous fiscal year due to an increase in the average invested balance within the equity portfolio.

  The equity portfolio returned 19.0 percent during the current year, which was a substantial increase over the prior year return of -2.6 percent. This increase in returns resulted in an increase of net realized and unrealized gains of $6,385.9 million from the prior fiscal year. Overall, the U.S. equity market returned 18.4 percent and the non-U.S. market gained 20.4 percent as measured by Morgan Stanley Capital International (MSCI) indices which are broad barometers of overall market returns. Investors continued to find global equities an attractive investment in a low interest rate environment and the non-U.S. equity market performed relatively better versus the U.S. equity markets. The U.S. dollar had mixed results versus the performance of other currencies. Several non-U.S. equity markets posted strong local market returns and benefitted from the U.S. dollar depreciating in some non-U.S. markets. In the U.S., smaller cap stocks generally outperformed larger cap stocks, as well as the broader market.

- ***Alternative investments*** net investment position increased by $6,006.6 million. Ordinary income distributions net of investment expenses paid increased this asset class by $588.8 million. Net realized and unrealized gains increased balances in this asset class by $4,670.4 million. Transfers in from other asset classes of $747.4 million were used to fund capital calls in excess of partnership distributions. During the current fiscal year, alternative asset managers made capital calls of $(8,067.4) million, which was partially offset by distributions from general partners of cash and stock totaling $7,320.0 million.

Ordinary income net of investment expenses increased by $166.9 million over the previous fiscal year as partners increased the distributions made during the year. The alternative asset portfolio returned 13.9 percent in the current year which was a substantial increase over the prior year return of 6.5 percent. This substantial increase in returns resulted in an increase of net realized and unrealized gains from the previous fiscal year of $3,242.3 million.

Returns for each major asset class within Alternative Investments are reflected in the following table:

Alternative Investment Returns *	FY 2017	FY 2016
Private Equity	16.8%	4.7%
Real Assets	10.1%	10.4%
Tangible Assets	16.3%	-0.8%
Total Alternative Asset Return	**13.9%**	**6.5%**

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

Appreciation of the private equity portfolio's value exceeded that of the prior fiscal year, reflecting strong equity markets, both public and private. Debt financing markets remained accommodating, allowing new investments to be funded on relatively favorable terms, contributing to an increased pace of investment activity over that of the previous year. Private equity fundraising remained very active during the fiscal year as demand for many private equity funds significantly exceeded capacity.

Strong tenant demand for nearly all types of property led to real estate's steady returns for fiscal year 2017. Both U.S. and foreign returns remained fairly constant, although some non-U.S. investments were impacted by currency movements. Investor demand, and accordingly competition for acquisitions, remained strong during the year. WSIB's portfolio also benefitted from the completion of some assets previously under development.

Tangible asset returns increased over the previous year from three main drivers: better than expected realizations of large assets, operational improvements made by general partners, and assets that were under construction during the prior year became fully operational in the current year.

As shown in the following table, securities on loan increased by $314.6 million and collateral held under securities lending agreements increased accordingly. Regulatory changes and balance sheet considerations with market participants continued to impact the demand dynamic across asset classes and the focus on increased capital efficiency has led to demand in non-cash collateral lending activity. Non-cash collateral flexibility remains the current key driver to higher loan balances. Although the U.S. market rally since the elections has led to continued decrease in leverage in the market, the CTF has benefitted from an increase in lending activity due to the demand to borrower equities against non-cash collateral in the U.S. In addition, the CTF has benefited from seasonal dividend lending in France, Sweden, and Norway and trading in specific equities held. Cash collateral held under securities lending agreements are reported as an asset and a liability in the accompanying Statement of Net Investment Position.

	June 30, 2017	June 30, 2016	Increase (Decrease)	Percentage Change
Securities on Loan Fiscal Year End	$ 1,847,423,181	$ 1,532,773,414	$ 314,649,767	20.5%
Cash Collateral Held Under Securities Lending Agreements	712,950,581	682,233,592	30,716,989	
Non-Cash Collateral Held Under Securities Lending Agreements	1,187,271,663	890,667,276	296,604,387	
Total Collateral Held	**$ 1,900,222,244**	**$ 1,572,900,868**	**$ 327,321,376**	**20.8%**

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 Funds' 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, 2017

See notes to financial statements

	Commingled Trust Fund	Plan-Specific Investments	Total	Percent of Plan Assets
ASSETS				
Investments:				
CASH AND CASH EQUIVALENTS	$ 2,061,659,994	$ 175,101,918	$ 2,236,761,912	2.4%
DEBT SECURITIES				
Mortgage and Other Asset Backed Securities	1,107,112,845	-	1,107,112,845	
Corporate Bonds	9,058,732,785	-	9,058,732,785	
U.S. Government and Agency Securities	5,145,612,069	-	5,145,612,069	
Foreign Government and Agency Securities	1,572,500,154	-	1,572,500,154	
Total Debt Securities	16,883,957,853	-	16,883,957,853	18.1%
EQUITY SECURITIES				
Common and Preferred Stock	21,439,031,512	-	21,439,031,512	
Commingled Equity Trusts and Mutual Funds	12,459,872,398	-	12,459,872,398	
Real Estate Investment Trusts	326,766,537	-	326,766,537	
Depository Receipts and Other Miscellaneous	691,629,655	-	691,629,655	
Total Equity Securities	34,917,300,102	-	34,917,300,102	37.4%
ALTERNATIVE INVESTMENTS				
Private Equity	19,478,090,132	-	19,478,090,132	
Real Estate	16,339,952,235	-	16,339,952,235	
Tangible Assets	3,488,176,950	-	3,488,176,950	
Total Alternative Investments	39,306,219,317	-	39,306,219,317	42.1%
Total Investments	93,169,137,266	175,101,918	93,344,239,184	100.0%
Collateral Held Under Securities Lending Agreements	712,950,581	-	712,950,581	
Investment Earnings Receivable	255,131,122	322,144	255,453,266	
Receivables for Investments Sold	172,839,184	-	172,839,184	
Open Foreign Exchange Contracts Receivable	2,218,729,589	-	2,218,729,589	
Total Assets	96,528,787,742	175,424,062	96,704,211,804	
LIABILITIES				
Obligations Under Securities Lending Agreements	712,950,581	-	712,950,581	
Investment Management Fees Payable	17,310,393	23,134	17,333,527	
Payable for Investments Purchased	437,771,078	-	437,771,078	
Open Foreign Exchange Contracts Payable	2,201,744,214	-	2,201,744,214	
Total Liabilities	3,369,776,266	23,134	3,369,799,400	
NET INVESTMENT POSITION	$ 93,159,011,476	$ 175,400,928	$ 93,334,412,404	

Retirement Funds Statement of Changes in Net Investment Position - Year Ended June 30, 2017

See notes to financial statements

	Commingled Trust Fund	Plan-Specific Investments	Total
Net Investment Income			
Investment Income:			
Interest, Dividends, and Other Investment Income	$ 2,115,846,683	$ 2,678,707	$ 2,118,525,390
Net Realized Capital Gains	2,948,065,994	-	2,948,065,994
Unrealized Gains	6,885,907,311	-	6,885,907,311
Less:			
Investment Expenses	(377,361,694)	(270,178)	(377,631,872)
WSIB Operating Expenses	(14,974,054)	(8,938)	(14,982,992)
Net Investment Income	11,557,484,240	2,399,591	11,559,883,831
Net Withdrawal by Retirement Plans	-	(915,214,717)	(915,214,717)
Investments in Commingled Funds	665,077,836	(665,077,836)	-
Withdrawals from Commingled Funds	(1,587,047,484)	1,587,047,484	-
Increase in Net Investment Position	10,635,514,592	9,154,522	10,644,669,114
NET INVESTMENT POSITION, JUNE 30, 2016	82,523,496,884	166,246,406	82,689,743,290
NET INVESTMENT POSITION, JUNE 30, 2017	$ 93,159,011,476	$ 175,400,928	$ 93,334,412,404

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, 2017, was $13.8 million, and expenses associated with securities lending were $6.2 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 U.S., requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

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

The 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	$ -	$ 59,235,825	$ 59,235,825	0.1%
LEOFF 1	5,734,954,798.00	749,414	5,735,704,212	6.1%
LEOFF 2	11,732,858,417.00	9,326,889	11,742,185,306	12.6%
PERS 1	7,453,996,715.00	5,525,504	7,459,522,219	8.0%
PERS 2/3 (DC and DB Plans)	36,636,432,416.00	27,484,749	36,663,917,165	39.3%
PUBLIC SAFETY EMPLOYEES 2	497,963,674.00	3,903,049	501,866,723	0.5%
SCHOOL EMPLOYEES 2/3 (DC and DB Plans)	6,274,367,938.00	9,870,720	6,284,238,658	6.7%
STATE PATROL 1	1,153,175,765.00	307,771	1,153,483,536	1.2%
STATE PATROL 2	55,386,045.00	901,187	56,287,232	0.1%
TEACHERS 1	5,726,978,687.00	16,207,790	5,743,186,477	6.2%
TEACHERS 2/3 (DC and DB Plans)	17,664,785,946.00	41,887,651	17,706,673,597	19.0%
VOLUNTEER FIREFIGHTERS	209,631,411.00	379	209,631,790	0.2%
LEOFF RETIREMENT BENEFIT IMPROVEMENT	18,479,664.00	-	18,479,664	Trace
Total Net Investment Position at June 30, 2017	**$ 93,159,011,476**	**$ 175,400,928**	**$ 93,334,412,404**	**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	$ 57,471,317	$ 412,705	$ 57,884,022	$ 16,476,257,455
Public Equity Passive Management	2,451,330	922,666	3,373,996	19,070,192,883
ALTERNATIVE INVESTMENTS:				
Private Equity	205,408,069	2,153,753	207,561,822	19,491,692,712
Real Estate	45,699,923	10,610,218	56,310,141	16,352,946,075
Tangible Assets	53,618,410	9,156,799	62,775,209	3,488,165,913
CASH MANAGEMENT	2,350,689	-	2,350,689	1,457,937,870
DEBT SECURITIES	-	-	-	16,997,219,496
OTHER FEES:				
Consultants and Accounting	910,350	-	910,350	NA
Legal Fees	996,133	-	996,133	NA
Research Services	2,280,834	-	2,280,834	NA
Securities Lending Rebates and Fees	6,187,255	-	6,187,255	NA
Miscellaneous Fees	257,562	-	257,562	NA
	$ 377,631,872	$ 23,256,141	$ 400,888,013	$ 93,334,412,404

* 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, 2017, the Retirement Funds had a total of $23.6 billion in unfunded commitments in the following asset classes (in millions):

Private Equity	$ 12,937.2
Real Estate	7,028.4
Tangibles	3,589.4
Total	$ 23,555.0

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, 2017, 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 Bloomberg Barclays U.S. 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, 2017, the Retirement Funds' duration was within the duration target of this index.

Schedules 1 and 2 provide information about the interest rate risks associated with the Retirement Funds' investments, as of June 30, 2017. 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, 2017, 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, 2017.

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, 2017, of $910.9 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, 2017, was approximately $1,847.4 million. The securities on loan remain in the Statement of Net Investment Position in their respective categories. At June 30, 2017, cash collateral received totaling $712.9 million is reported as a securities lending obligation, and the fair value of the reinvested cash collateral totaling $712.9 million 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, 2017, was $1,187.2 million.

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, 2017.

In Millions	Cash Collateral	Non-Cash Collateral	Total
Mortgage Backed Securities	$ -	$ 1,004.7	$ 1,004.7
Repurchase Agreements	312.2	-	312.2
Yankee CD	129.8	-	129.8
Commercial Paper	159.2	-	159.2
U.S. Treasuries	-	182.5	182.5
Cash Equivalents and Other	111.7	-	111.7
Total Collateral Held	**$ 712.9**	**$ 1,187.2**	**$ 1,900.1**

During Fiscal Year 2017, securities lending transactions could be terminated on demand by either the Retirement Funds or the borrower. As of June 30, 2017, the cash collateral held had an average duration of 19.1 days and an average weighted final maturity of 62.6 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 2017, 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 2017, 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, or 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, Bloomberg, 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 ten 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 five 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 ten 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, 2017:

		Fair Value Measurements Using:		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
INVESTMENTS				
DEBT SECURITIES				
Mortgage and Other Asset Backed Securities	$ 1,107,112,845	$ -	$ 1,107,112,845	$ -
Corporate Bonds	9,058,732,785	-	9,058,732,785	-
U.S. and Foreign Government and Agency Securities	6,718,112,223	-	6,718,112,223	-
Total Debt Securities	16,883,957,853	-	16,883,957,853	-
EQUITY SECURITIES				
Common and Preferred Stock	21,439,031,512	21,374,737,942	60,601,586	3,691,984
Depository Receipts and Other Miscellaneous	691,629,655	690,056,735	254,949	1,317,971
Mutual Funds and Exchange Traded Funds	2,214,562	2,214,562	-	-
Real Estate Investment Trusts	326,766,537	326,766,537	-	-
Private Equity and Tangible Asset Funds	180,301,157	180,301,157	-	-
Total Equity Securities	22,639,943,423	22,574,076,933	60,856,535	5,009,955
Total Investments By Fair Value Level	39,523,901,276	22,574,076,933	16,944,814,388	5,009,955
INVESTMENTS MEASURED AT NET ASSET VALUE				
Private Equity	19,428,002,134			
Real Estate	16,339,952,235			
Tangible Assets	3,357,963,791			
Collective Investment Trust Funds (Equity Securities)	12,457,657,836			
Total Investments at Net Asset Value	51,583,575,996			
Total Investments Measured at Fair Value	$ 91,107,477,272			
OTHER ASSETS (LIABILITIES) AT FAIR VALUE				
Collateral Held Under Securities Lending Agreements	$ 712,950,581	$ -	$ 712,950,581	$ -
Net Foreign Exchange Contracts Receivable - Forward and Spot	16,985,376	-	16,985,376	-
Net Swap Contracts Receivable	513,864	-	513,864	-
Margin Variation Payable - Futures Contracts	(10,274,031)	(10,274,031)	-	-
Obligations Under Securities Lending Agreements	(712,950,581)	-	(712,950,581)	-
Total Other Assets (Liabilities) Measured at Fair Value	$ 7,225,209	$ (10,274,031)	$ 17,499,240	$ -

Debt and Equity Securities (Level 1, 2, and 3)

Investments classified as Level 1 in the above table were exchange traded equity securities where 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.

Investments classified as Level 3 in the above table were publicly traded equity securities that have non-current, or "stale" values and are included in the table at the last traded price. The stale pricing occurred due to trading suspensions, delisting from an active exchange, or lack of investor demand. The current market values of these securities are unknown.

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, 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 $39.3 billion (42.1 percent of total investments), as of June 30, 2017. 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, 2017, 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	$ 50,087,998	$ -	$ 130,213,159	$ 180,301,157	0.5%
Less than 3 years	86,415,680	1,392,007,330	-	1,478,423,010	3.8%
3 to 9 years	6,512,933,454	1,594,692,013	591,319,082	8,698,944,549	22.1%
10 years and over	12,828,653,000	13,353,252,892	2,766,644,709	28,948,550,601	73.6%
Total	$ 19,478,090,132	$ 16,339,952,235	$ 3,488,176,950	$ 39,306,219,317	100.0%

Private Equity Limited Partnerships

This includes 277 private equity limited liability partnerships that invest primarily in the U.S., 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 36 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 40 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 U.S. 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, 2017, 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, 2017, the Retirement Funds counterparty risk was approximately $29.2 million. The majority of the counterparties (87 percent) held a credit rating of A1 on Moody’s rating scale. All counterparties held investment grade credit ratings of A3 and above.

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 in the future. 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, 2017, the Retirement Funds had outstanding forward currency contracts with a net unrealized gain of $17.0 million. At June 30, 2017, 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 $2.191 billion and $2.174 billion, respectively. The contracts have varying maturity dates ranging from July 3, 2017, to September 20, 2017.
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 27, 2017, to September 20, 2017. 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 $40.5 million at June 30, 2017. 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, 2017, 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, 2017 - Investment Derivative	
	Classification	Amount	Amount	Notional
FUTURES CONTRACTS:				
Bond Index Futures	Investment	$ (1,221,718)	$ (1,539,421)	421,700,000
Equity Index Futures	Investment	269,489,376	(8,734,610)	83,804,562
		$ 268,267,658	$ (10,274,031)	505,504,562
FORWARD CURRENCY CONTRACTS	Investment	$ 20,779,568	$ 16,993,882	2,172,203,666
TOTAL RETURN SWAP CONTRACTS:				
Total Return Swaps Bond	Investment	$ (1,376,701)	$ 141,746	32,832,330
Total Return Swaps Equity	Investment	13,199,250	108,580	(98,397,910)
		$ 11,822,549	$ 250,326	(65,565,580)

Note 11. Dollar Weighted Returns

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

	Dollar Weighted Return
2017	14.08%
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%

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 2017.

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 Bloomberg Barclays U.S. Universal Index.
- 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 four 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 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.

- 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 Bloomberg Barclays U.S. Universal 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 Bloomberg Barclays Capital Global Family of Fixed Income Indices.
- Investment Grade Asset-Backed Securities as defined by Bloomberg Barclays Capital Global Family of Fixed Income Indices.
- Investment Grade Commercial Mortgage-Backed Securities as defined by Bloomberg 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 Bloomberg 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 Bloomberg 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 +/- 20 percent of the duration of the portfolio's performance benchmark, the Bloomberg Barclays U.S. 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 MSCI All Country World Index Investable Market Index (MSCI ACWI IMI), lagged by one calendar quarter, by 300 basis points in the long run.

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, are 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 two 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 five years.

Schedule 1: Schedule of Maturities and Credit Quality

Investment Type	Total Fair Value	Maturity: Less than 1 year	Maturity: 1-5 years	Maturity: 6-10 years	Maturity: More than 10 years	Effective Duration
Mortgage and Other Asset Backed Securities	$ 929,251,688	$ 13,799,505	$ 652,272,075	$ 263,180,108	$ -	4.18
Corporate Bonds	9,058,732,785	568,182,377	3,791,358,227	3,347,490,519	1,351,701,662	6.02
U.S. Government and Agency Securities	5,145,612,069	488,654,728	2,619,943,960	1,461,585,732	575,427,649	5.51
Foreign Government and Agency Securities	1,572,500,154	125,655,877	528,525,528	630,241,490	288,077,259	5.63
Totally Internally Managed Fixed Income	16,706,096,696	1,196,292,487	7,592,099,790	5,702,497,849	2,215,206,570	5.72
Mortgage Backed TBA Forwards	177,861,157	177,861,157	-	-	-	0.00
Total Retirement Funds Investment Categorized	16,883,957,853	$ 1,374,153,644	$ 7,592,099,790	$ 5,702,497,849	$ 2,215,206,570	5.66 *

Investments Not Required to be Categorized	
Cash and Cash Equivalents	2,236,761,912
Equity Securities	34,917,300,102
Alternative Investments	39,306,219,317
Total Investments Not Categorized	76,460,281,331
Total Investments	$ 93,344,239,184

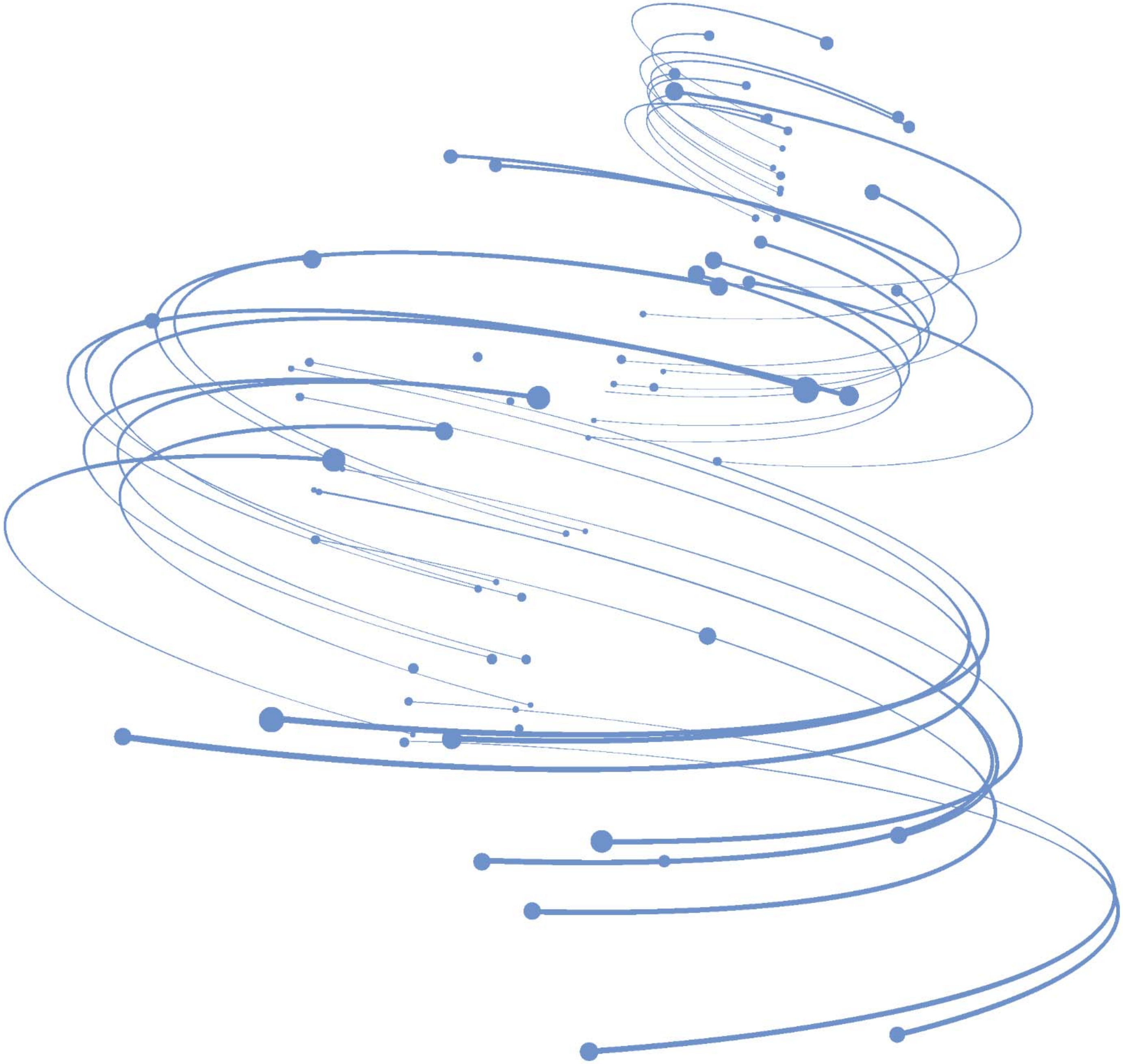
* Excludes cash balances in calculation

Schedule 2: Additional Credit Rating Disclosures

Moodys Equivalent Credit Rating	Total Fair Value	Investment Type: Mortgage and Other Asset Backed Securities	Investment Type: Corporate Bonds	Investment Type: U.S. Government and Agency Securities	Investment Type: Foreign Government and Agency Securities
Aaa	$ 6,804,098,386	$ 1,106,263,020	$ 449,661,335	$ 5,145,612,069	$ 102,561,962
Aa1	58,977,246	-	-	-	58,977,246
Aa2	156,590,481	-	92,777,991	-	63,812,490
Aa3	617,716,469	-	395,135,810	-	222,580,659
A1	852,028,892	-	807,105,090	-	44,923,802
A2	353,981,704	145,664	353,836,040	-	-
A3	1,330,963,694	-	1,262,731,182	-	68,232,512
Baa1	1,344,660,281	-	1,243,202,031	-	101,458,250
Baa2	1,548,630,171	-	1,400,845,076	-	147,785,095
Baa3	1,993,495,574	-	1,786,144,607	-	207,350,967
Ba1 or Lower	1,822,814,955	704,161	1,267,293,623	-	554,817,171
Total	$ 16,883,957,853	$ 1,107,112,845	$ 9,058,732,785	$ 5,145,612,069	$ 1,572,500,154

Schedule 3: Foreign Currency Exposure

Foreign Currency Denomination	Investment Type In U.S. Dollar Equivalent						
	Cash and Cash Equivalents	Debt Securities	Equity Securities	Alternative Assets	Open Foreign Exchange Contracts - Net	Total	Percent of Total Investment Balances
AUSTRALIAN DOLLAR	$ 8,953,596	$ 186,303,364	$ 537,506,004	$ 45,206,601	$ 372,231	$ 778,341,796	0.8%
BRAZILIAN REAL	1,416,220	182,584,965	183,501,532	-	149,302	367,652,019	0.4%
CANADIAN DOLLAR	16,205,254	-	697,275,080	-	374,489	713,854,823	0.8%
SWISS FRANC	61,243	-	975,620,236	-	1,351,280	977,032,759	1.1%
CHILEAN PESO	186,985	63,641,277	18,564,934	-	(78,300)	82,314,896	0.1%
COLOMBIAN PESO	3,393	81,100,365	868,900	-	-	81,972,658	0.1%
DANISH KRONE	34,901	-	191,175,418	-	1,594,552	192,804,871	0.2%
EURO CURRENCY	11,335,961	-	3,402,285,670	2,945,221,326	3,413,802	6,362,256,759	6.8%
POUND STERLING	14,700,559	-	2,248,883,452	-	39,183	2,263,623,194	2.4%
HONG KONG DOLLAR	7,079,818	-	799,840,001	-	(67,794)	806,852,025	0.9%
INDONESIAN RUPIAH	414,862	29,622,174	67,012,806	-	2,498	97,052,340	0.1%
INDIAN RUPEE	1,490,062	88,812,145	328,672,869	-	(10,475)	418,964,601	0.4%
JAPANESE YEN	14,612,794	-	2,657,136,777	-	5,616,370	2,677,365,941	2.9%
SOUTH KOREAN WON	5,561,711	-	400,195,480	-	1,665,496	407,422,687	0.4%
MEXICAN PESO (NEW)	1,523,768	84,267,103	88,102,112	-	1,015,083	174,908,066	0.2%
MALAYSIAN RINGGIT	833,559	49,004,484	58,531,481	-	-	108,369,524	0.1%
SWEDISH KRONA	2,335,357	-	404,191,715	-	(209,765)	406,317,307	0.4%
SINGAPORE DOLLAR	536,381	-	191,539,752	-	91,368	192,167,501	0.2%
THAILAND BAHT	821,028	-	93,224,887	-	(16,740)	94,029,175	0.1%
TURKISH LIRA	155,599	21,365,034	138,413,913	-	477,031	160,411,577	0.2%
NEW TAIWAN DOLLAR	33,043	-	242,244,834	-	(228,182)	242,049,695	0.3%
SOUTH AFRICAN RAND	354,168	-	126,492,196	-	341,579	127,187,943	0.1%
OTHER	1,207,421	110,689,925	192,650,140	-	1,092,367	305,639,853	0.3%
Total Foreign Currency Exposure	$ 89,857,683	$ 897,390,836	$ 14,043,930,189	$ 2,990,427,927	$ 16,985,375	$ 18,038,592,010	19.3%



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 (which are comprised of the Accident Fund, the Medical Aid Fund, the Pension Reserves Fund, and the Supplemental Pension Fund) 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, 2017, 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.

www.eidebailly.com

877 W. Main St., Ste. 800 | Boise, ID 83702-5858 | T 208.344.7150 | F 208.344.7435 | EOE

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, 2017, 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 27, 2017

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, assets, and liabilities of the L&I Funds as of June 30, 2017. 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, 2017. The following table compares the net investment position of each major investment classification at June 30, 2017, with those at June 30, 2016. In addition, they summarize the changes in each major investment classification for the fiscal year ended June 30, 2017 and 2016, as well as a comparison of investment performance, the results of financial operations, and other relevant information between the two reporting periods. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements of the L&I Funds.

As shown in the following table, the net investment position of the L&I Funds increased by $827.2 million during the fiscal year ended June 30, 2017. Net contributions from the L&I Funds during the year increased net investment position by $275.8 million and were mainly reinvested in fixed income securities. Net investment income increased net investment position by $551.4 million and was reinvested in the various asset classes of the L&I Funds.

Net investment income decreased by $(306.2) million during the current fiscal year as compared to the prior year, mainly due to a large decrease in net realized and unrealized gains and losses. This was the result of decreased investment returns from the previous year. The current fiscal year return for the L&I Funds was 3.5 percent compared to the prior fiscal year return of 5.7 percent. The decrease in total returns was due to a substantial decline in investment returns in the debt portfolio, which represents 87 percent of the net investment position of the L&I Funds at June 30, 2017. The decline in returns was offset partially by substantial gains over the prior fiscal year in the equity portfolio.

Net contributions from the L&I Funds increased by $173.4 million. Net premiums collected by L&I increased due to growth in the number of hours reported by employers and a rate increase in the Accident Fund. In addition, net benefit payments decreased mainly due to fewer accident and medical claims received.

Investment related receivables and payables, which include investments purchased and sold pending settlement over year end, income receivables, and expenses payable, are reflected in each asset class's net investment position. These balances fluctuate from year to year based on invested balances or trading activity. Pending trade balances vary due to fluctuations in unsettled securities transactions each year. 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 and can vary substantially from year to year. Investment income receivables and investment expenses payable generally fluctuate within each asset class based on the invested balances each year.

	Summarized Change in Net Investment Position and Returns by Asset Class							
	Fiscal Year End June 30, 2017			Fiscal Year End June 30, 2016			Year Over Year Change	
	Debt Securities (*)	Equity Securities	Total	Debt Securities (*)	Equity Securities (*)	Total	Increase (Decrease)	Percent Change
Beginning Net Investment Position (**)	$ 13,930,137,900	$ 1,766,295,539	$ 15,696,433,439	$ 12,840,730,616	$ 1,895,673,627	$ 14,736,404,243	$ 960,029,196	6.5%
Investment Income:								
Interest, Dividends, and Other Investment Income	482,201,281	226,117	482,427,398	501,694,363	1,363,041	503,057,404	(20,630,006)	-4.1%
Realized and Unrealized Gains (Losses)	(264,674,243)	338,936,254	74,262,011	390,097,108	(30,744,662)	359,352,446	(285,090,435)	-79.3%
Less: Investment Expenses	(4,522,845)	(711,589)	(5,234,434)	(4,022,020)	(700,103)	(4,722,123)	512,311	10.8%
Net Investment Income	213,004,193	338,450,782	551,454,975	887,769,451	(30,081,724)	857,687,727	(306,232,752)	35.7%
Net Contributions	275,439,310	339,368	275,778,678	101,994,984	346,485	102,341,469	173,437,209	169.5%
Transfers to Other Asset Classes	(1,044,389)	1,044,389	-	99,642,849	(99,642,849)	-	-	NA
Ending Net Investment Position (**)	**$ 14,417,537,014**	**$ 2,106,130,078**	**$ 16,523,667,092**	**$ 13,930,137,900**	**$ 1,766,295,539**	**$ 15,696,433,439**	**$ 827,233,653**	**5.3%**
Increase (Decrease) in Net Investment Position	**$ 487,399,114**	**$ 339,834,539**	**$ 827,233,653**					
Percentage Change in Net Investment Position	**3.5%**	**19.2%**	**5.3%**					
One Year Time Weighted Return - June 30, 2017	**1.5%**	**19.2%**	**3.5%**					
One Year Time Weighted Return - June 30, 2016	**6.9%**	**-2.4%**	**5.8%**					

(*) Includes cash balances used for trading purposes
(**) Net investment position includes accrued income, accrued expenses, and pending trades within each asset class

The following summarizes the changes in net investment position for each main investment category in the previous table:

- ***Debt securities*** net investment position increased by $487.4 million. Interest income net of expenses of $477.7 million were reinvested to debt securities during the current fiscal year. Net realized and unrealized losses decreased balances in this asset class by $(264.7) million. The remaining increase was due to contributions received net of transfers to other asset classes. The net investment position and performance of debt securities includes $200.5 million of cash balances used for trading purposes.

  Despite a rising interest rate environment and additional investments made to the debt portfolio, interest income on fixed income securities declined by $(19.5) million from the previous fiscal year. The average coupon rate at June 30, 2017, ranged from 3.1 to 3.7 percent for the Accident Fund, Medical Aid Fund, and Pension Reserve Fund. This was a significant decrease from the prior year average coupon rates that ranged from 3.5 to 4.0 percent. In addition, as bonds mature, they are typically reinvested in debt securities with lower interest rates as coupon rates have been in a general state of decline for many years.

  The debt portfolio returned 1.5 percent during the current year which was a substantial decrease over the prior year return of 6.9 percent. This substantial decrease in returns resulted in a decrease of net realized and unrealized gains and losses of $(654.8) million from the prior fiscal year within the debt portfolio. The decrease in investment returns is the result of a rising interest rate environment during fiscal year ended June 30, 2017. Generally, higher yields on debt securities translated to lower bond prices, while an improved economic outlook resulted in tighter yield spreads. Credit bonds outperformed treasuries. Lower credit quality and emerging market credit bonds performed the best of all. For the 12 months ended June 30, 2017, long maturity treasuries dramatically underperformed short maturity ones, while longer maturity credit bonds generally outperformed shorter maturity credits. Each individual L&I Fund debt portfolio outperformed their Comparable Market Indices due to their greater exposure to emerging markets.

Reflecting general political uncertainty in the United States, U.S. Treasury yields increased in the months leading up to the election, and then rose sharply after the election into the end of the year with the anticipation of new fiscal policies for tax reform, infrastructure spending, trade, and health care. For the last six months of the fiscal year, interest rates generally moved up and down around the year end level. Even with higher yield levels, the global low interest rate environment persisted for the fiscal year, due to central bank policies, modest economic growth, and low inflation.

In June 2017, the WSIB approved a new investment allocation to real estate of 5 percent in the Accident Fund, Medical Aid Fund, and Pension Reserve Fund. It is anticipated the future purchases of real estate will be funded in large part from a reduced allocation to fixed income securities. The Board has elected to take a gradual implementation approach to reach the strategic asset allocation. It is anticipated that it will take up to seven years given the liquidity constraints of this asset class.

- ***Equity securities*** net investment position increased by $339.8 million almost entirely due to net realized and unrealized gains within the equity portfolio.

  Currently, the L&I equity portfolio target allocation is 52 percent U.S. securities and 48 percent non-U.S securities. During Fiscal Year 2017, this portfolio returned 19.2 percent compared to the prior fiscal year return of -2.4 percent. This substantial increase in returns resulted in an increase of net realized and unrealized gains from the previous fiscal year of $369.7 million. Overall, the U.S. equity market returned 18.4 percent and the non-U.S. market gained 20.4 percent as measured by Morgan Stanley Capital International (MSCI) indices which are broad barometers of overall market returns. Investors continued to find global equities an attractive investment in a low interest rate environment and the non-U.S. equity market performed relatively better versus the U.S. equity markets. The U.S. dollar had mixed results versus the performance of other currencies. Several non-U.S. equity markets posted strong local market returns and benefitted from the U.S. dollar depreciating in some non-U.S. markets. In the U.S., smaller cap stocks generally outperformed larger cap stocks, as well as the broader market.

As shown in the following table, securities on loan increased by $394.1 million and collateral held under securities lending agreements increased accordingly. Regulatory changes and balance sheet considerations with market participants continued to impact the demand dynamic across asset classes and the focus on increased capital efficiency has led to demand in non-cash collateral lending activity. Non-cash collateral flexibility remains the current key driver to higher loan balances. The L&I Funds securities were attractive to borrowers due to the diversified holdings in U.S. Treasury bonds, demand for current issues less than ten years to maturity, and increased shorting activity. Cash collateral held under securities lending agreements are reported as an asset and a liability in the accompanying Statement of Net Investment Position.

	June 30, 2017	June 30, 2016	Increase (Decrease)	Percentage Change
Securities on Loan Fiscal Year End	$ 506,123,451	$ 112,010,405	$ 394,113,046	351.9%
Cash Collateral Held Under Securities Lending Agreements	94,141,614	114,580,717	(20,439,103)	
Non Cash Collateral Held Under Securities Lending Agreements	430,299,069	316,185	429,982,884	
Total Collateral Held	**$ 524,440,683**	**$ 114,896,902**	**$ 409,543,781**	**356.4%**

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, 2017
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	$ 41,955,193	$ 56,151,492	$ 69,451,385	$ 32,957,511	$ 200,515,581	1.2%
DEBT SECURITIES						
Mortgage and Other Asset Backed Securities	462,049,150	405,699,939	384,505,883	372	1,252,255,344	
Corporate Bonds	3,620,789,760	3,089,242,780	2,788,353,487	25,927,420	9,524,313,447	
U.S. Government and Agency Securities	907,088,550	877,765,870	624,979,125	54,738,889	2,464,572,434	
Foreign Government and Agency Securities	295,569,280	305,447,690	255,363,316	2,002,930	858,383,216	
Total Debt Securities	5,285,496,740	4,678,156,279	4,053,201,811	82,669,611	14,099,524,441	85.9%
EQUITY SECURITIES						
Commingled Investment Trusts	672,269,450	909,616,790	524,331,184	-	2,106,217,424	
Total Equity Securities	672,269,450	909,616,790	524,331,184	-	2,106,217,424	12.9%
Total Investments	5,999,721,383	5,643,924,561	4,646,984,380	115,627,122	16,406,257,446	100.0%
Collateral Held Under Securities Lending Agreements	-	30,396,384	53,613,102	10,132,128	94,141,614	
Investment Earnings Receivable	40,607,116	32,700,607	33,027,152	325,797	106,660,672	
Receivable for Investments Sold	370	10,894,331	158	-	10,894,859	
Total Assets	6,040,328,869	5,717,915,883	4,733,624,792	126,085,047	16,617,954,591	
LIABILITIES						
Obligations Under Securities Lending Agreements	-	30,396,384	53,613,102	10,132,128	94,141,614	
Accounts Payable	43,401	54,409	37,727	10,348	145,885	
Total Liabilities	43,401	30,450,793	53,650,829	10,142,476	94,287,499	
NET INVESTMENT POSITION	$ 6,040,285,468	$ 5,687,465,090	$ 4,679,973,963	$ 115,942,571	$ 16,523,667,092	

Labor and Industries’ Funds Statement of Changes in Net Investment Position - Year Ended June 30, 2017

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	$ 189,468,604	$ 150,268,157	$ 141,409,690	$ 1,280,947	$ 482,427,398
Net Realized Capital Gains	46,880,415	35,763,093	22,743,364	84,459	105,471,331
Unrealized Gains (Losses)	(55,080,641)	23,537,099	953,783	(619,561)	(31,209,320)
Less:					
Investment Expenses	(859,558)	(796,692)	(634,143)	(120,363)	(2,410,756)
WSIB Operating Expenses	(1,036,873)	(966,955)	(798,542)	(21,308)	(2,823,678)
Net Investment Income	179,371,947	207,804,702	163,674,152	604,174	551,454,975
Net Amount Contributed	121,113,873	105,693,955	31,151,542	17,819,308	275,778,678
Increase in Net Investment Position	300,485,820	313,498,657	194,825,694	18,423,482	827,233,653
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
Net Investment Position - June 30, 2017	$ 6,040,285,468	$ 5,687,465,090	$ 4,679,973,963	$ 115,942,571	$ 16,523,667,092

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 2017 was $1.5 million. Securities lending expenses during the fiscal year totaled $0.3 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, 2017, 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, 2017, the L&I Funds' portfolio durations were within the duration targets documented in Note 7.

Schedules 1 and 2 provide information about the interest rate risks associated with the L&I Funds' investments, as of June 30, 2017. 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, 2017, 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, 2017.

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, 2017, consists of $785.2 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, 2017, was approximately $506.1 million. The securities on loan remain in the Statement of Net Investment Position in their respective categories. At June 30, 2017, cash collateral received totaling $94.1 million is reported as a securities lending obligation, and the fair value of the reinvested cash collateral totaling $94.1 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, 2017, was $430.3 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, 2017.

In Millions:	Cash Collateral	Non-Cash Collateral	Total
Mortgage Backed Securities	$ -	$ 429.4	$ 429.4
Repurchase Agreements	41.2	-	41.2
Yankee CD	17.1	-	17.1
Commercial Paper	21.0	-	21.0
Cash Equivalents and Other	14.8	0.9	15.7
Total Collateral Held	**$ 94.1**	**$ 430.3**	**$ 524.4**

During Fiscal Year 2017, securities lending transactions could be terminated on demand by either the L&I Funds or the borrower. As of June 30, 2017, the cash collateral held had an average duration of 19.1 days and an average weighted final maturity of 62.6 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 2017, 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 2017, 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, 2017, the only derivative securities held directly by the L&I Funds were collateralized mortgage obligations of $746.6 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 Bloomberg 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 ten 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, 2017:

		Fair Value Measurements Using:		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
INVESTMENTS				
DEBT SECURITIES				
Mortgage and Other Asset Backed Securities	$ 1,252,255,344	$ -	$ 1,252,255,344	$ -
Corporate Bonds	9,524,313,447	-	9,524,313,447	-
U.S. and Foreign Government and Agency Securities	3,322,955,650	-	3,322,955,650	-
Total Debt Securities	14,099,524,441	-	14,099,524,441	-
Total Investments By Fair Value Level	14,099,524,441	-	14,099,524,441	-
INVESTMENTS MEASURED AT NET ASSET VALUE				
Commingled Equity Investment Trusts	2,106,217,424			
Total Investments Measured at Fair Value	$ 16,205,741,865			
OTHER ASSETS (LIABILITIES) AT FAIR VALUE				
Collateral Held Under Securities Lending Agreements	$ -	$ -	$ 94,141,614	$ -
Obligations Under Securities Lending Agreements	-	-	(94,141,614)	-
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 seven 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:

Investment 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.

Investment Performance Objectives

The investment 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 Investment 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.

Risk 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 issues or common stock holdings cost shall exceed 3 percent of the Fund's fair 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).

Asset Allocation

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

Market conditions, funding status, and liability assumptions are dynamic, therefore, WSIB staff meets quarterly with L&I staff to review the investment portfolios.

Implementation Target 12-31-2019			
	Fixed Income	Equity	Real Estate
Accident Fund	83%	15%	2%
Pension Reserve Fund	88%	10%	2%
Medical Aid Fund	78%	20%	2%
Supplemental Pension Fund	100%	0%	0%

The Board has delegated to the Executive Director the authority to rebalance the asset allocation within the procedures established by the WSIB. 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.

The Board has elected a gradual implementation plan to reach the strategic asset allocation. The global equity and fixed income holdings are expected to reach their targets over a period of 2.5 years while real estate will take longer, up to 7 years or more given liquidity constraints of the asset class. If Real Estate, due to timing or illiquidity is above or below its target, Fixed Income will be used to offset the balance.

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 global equities will be the Morgan Stanley Capital International All Country World Investable Market Index net with USA gross (MSCI ACWI IMI net with USA gross). The global equity portfolio will be passively managed in commingled index funds. The commingled fund managers may use futures for hedging or establishing a long position.

	Target	Range
U.S. Equity	52%	47% - 57%
Non-U.S. Equity	48%	43% - 53%

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 three 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 6 years.
Pension Reserve Fund (610): within plus or minus 20 percent of a duration target of 8 years.
Medical Aid Fund (609): within plus or minus 20 percent of a duration target of 5 years.
Supplemental Pension Fund (881): duration will remain short.

Real Estate

The objectives and characteristic of the real estate portfolio are as follows:

- To generate a 6 percent annual investment return over a rolling 10-year period.
- The return will be generated by current income, and the portfolio will be intentionally constructed to focus on yield rather than total return.
- The portfolio will be diversified across geography and property type.
- The benchmark for the portfolio is a total net return of 6 percent measured over a rolling 10-year period.
- No more than 15 percent of the real estate portfolio will be invested in a single property after the programs build-out period.

Permissible Fixed Income Investments

- U.S. Treasuries and Government Agencies
- Credit Bonds
- Investment Grade Mortgage Backed Securities, as defined by Bloomberg Barclays Family of Fixed Income Indices
- Investment Grade Asset Backed Securities, as defined by Bloomberg Barclays Family of Fixed Income Indices
- Investment Grade Commercial Mortgage Backed Securities, as defined by Bloomberg Barclays 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 Bloomberg Barclays 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	$ 1,252,255,344	$ 4,449,031	$ 790,689,564	$ 404,776,487	$ 52,340,262	4.8	Schedule 2
Corporate Bonds	9,524,313,447	286,490,735	4,185,070,775	2,387,038,193	2,665,713,744	6.9	Schedule 2
U.S. Government and Agency Securities	2,464,572,434	159,587,557	1,074,527,344	821,981,181	408,476,352	6.8	Aaa
Foreign Government and Agencies	858,383,216	-	567,898,950	259,763,566	30,720,700	4.6	Schedule 2
	14,099,524,441	$ 450,527,323	$ 6,618,186,633	$ 3,873,559,427	$ 3,157,251,058	6.6*	
Investments Not Required to be Categorized							
Commingled Investment Trusts	2,106,217,424						
Cash and Cash Equivalents	200,515,581						
Total Investments Not Categorized	2,306,733,005						
Total L&I Funds Investments	$ 16,406,257,446						

* 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	$ 1,252,255,344	$ 545,263,175	$ 241,825,750
Aa1	-	114,368,600	-
Aa2	-	114,625,588	143,471,830
Aa3	-	752,893,302	303,494,770
A1	-	1,786,795,320	88,275,300
A2	-	1,097,502,803	-
A3	-	1,696,542,589	-
Baa1	-	1,121,269,135	27,595,766
Baa2	-	1,192,272,350	-
Baa3	-	765,282,125	53,719,800
Ba1 or Lower	-	337,498,460	-
Total	$ 1,252,255,344	$ 9,524,313,447	$ 858,383,216

Schedule 3: Foreign Currency Exposure

Foreign Currency Denomination	Equity Securities	Percent of Total Investments
AUSTRALIAN DOLLAR	$ 39,030,916	0.2%
BRAZILIAN REAL	12,006,061	0.1%
CANADIAN DOLLAR	53,109,980	0.3%
SWISS FRANC	44,890,250	0.3%
DANISH KRONE	9,877,429	0.1%
EURO CURRENCY	174,944,390	1.1%
POUND STERLING	102,327,492	0.6%
HONG KONG DOLLAR	56,920,803	0.3%
INDIAN RUPEE	17,976,684	0.1%
JAPANESE YEN	138,290,841	0.8%
SOUTH KOREAN WON	29,772,781	0.2%
MEXICAN PESO (NEW)	6,864,196	Trace
SWEDISH KRONA	18,538,789	0.1%
SINGAPORE DOLLAR	7,441,077	0.1%
NEW TAIWAN DOLLAR	25,091,019	0.2%
SOUTH AFRICAN RAND	12,118,362	0.1%
MISCELLANEOUS FOREIGN CURRENCIES	35,964,599	0.2%
Total Foreign Currency Exposure	$ 785,165,669	4.8%

PERMANENT 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 Permanent Funds (which are comprised of the American Indian Scholarship Endowment Fund, Agricultural School Fund, Normal School Fund, Common School Fund, Scientific School Fund, and State University Fund) 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, 2017, 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.

www.eidebailly.com

877 W. Main St., Ste. 800 | Boise, ID 83702-5858 | T 208.344.7150 | F 208.344.7435 | EOE

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, 2017, 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 27, 2017

www.eidebailly.com

877 W. Main St., Ste. 800 | Boise, ID 83702-5858 | T 208.344.7150 | F 208.344.7435 | EOE

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, as of June 30, 2017. 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, 2017. The following table compares the net investment position of each major investment classification at June 30, 2017, with those at June 30, 2016. In addition, they summarize the changes in each major investment classification for the fiscal year ended June 30, 2017 and 2016, as well as a comparison of investment performance, the results of financial operations, and other relevant information between the two reporting periods. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements of the Permanent Funds.

As shown in the following table, the net investment position of the Permanent Funds increased by $31.4 million during the fiscal year ended June 30, 2017. Net contributions from the Department of Natural Resources (DNR) on behalf of the Permanent Funds during the year increased net investment position by $12.9 million and were mainly invested in fixed income securities. Net investment income increased net investment position by $49.8 million. Distributable investment income (interest, dividends, and other investment income net of investment expenses) of $(31.2) million was distributed to the state colleges and universities pursuant to state laws. Interest, dividends, and other investment income in the accompanying financial statements includes capital gains and losses resulting from sales of the underlying holdings of the debt and equity funds, which invested in commingled investment funds managed by the WSIB.

Net investment income increased by $1.1 million during the current fiscal year as compared to the prior year. Interest, dividends, and other investment income decreased by $(4.4) million over the prior fiscal year mainly in the debt portfolio. This decrease is the result of a decline in the average coupon rate of fixed income securities from the previous fiscal year. As bonds mature, they are typically reinvested in debt securities with lower interest rates as coupon rates have been in a general state of decline for many years. Realized and unrealized gains and losses increased by $5.5 million. This was the result of increased returns as of June 30, 2017, as compared to the prior fiscal year in the equity portfolio which was partially offset by decreased returns in the debt portfolio for the same time period. The overall return remained the same from year to year despite the changes in returns among asset classes.

Net contributions from DNR decreased by $(3.1) million from the previous fiscal year. The contributions received from DNR each year are dependent on timber and land sales held as corpus on behalf of the Permanent Funds. These contributions are directly influenced by the volume of sales, timber and land prices, and other economic factors which change from year to year and impact the amount available to invest in securities by the WSIB.

Distributions to the Permanent Funds decreased from the prior fiscal year by $(4.5) million. This reduction was the result of a decrease in distributions over the previous year of $(4.9) million in the debt portfolio due to a reduction in the average coupon rate from the previous year. The average coupon rate at June 30, 2017, was 2.95 percent compared to the prior year rate of 3.11 percent. The distributions from the equity portfolio increased by $0.5 million over the prior fiscal year due to higher average equity balances and strong market returns. This was offset somewhat by a reduction in the dividend yield of the equity portfolio over the prior fiscal year. The trailing one-year dividend yield of the equity portfolio at June 30, 2017, was 3.2 percent compared to the prior year dividend yield of 3.5 percent.

Summarized Change in Net Investment Position and Returns by Asset Class

	Fiscal Year End June 30, 2017				Fiscal Year End June 30, 2016				Year Over Year Change	
	Cash and Cash Equivalents	Debt Securities	Equity Securities	Total	Cash and Cash Equivalents	Debt Securities	Equity Securities	Total	Increase (Decrease)	Percent Change
Beginning Net Investment Position (*)	$ 2,079,366	$ 710,365,304	$ 299,935,469	$ 1,012,380,139	$ 1,573,186	$ 662,871,716	$ 318,916,680	$ 983,361,582	$ 29,018,557	3.0%
Investment Income:										
Interest, Dividends, and Other Investment Income	5,290	20,086,804	11,339,085	31,431,179	4,410	25,032,219	10,819,923	35,856,552	(4,425,373)	-12.3%
Realized and Unrealized Gains (Losses)	-	(25,247,507)	43,805,787	18,558,280	-	17,647,687	(4,595,441)	13,052,246	5,506,034	42.2%
Less: Investment Expenses	(37,545)	(122,852)	(56,295)	(216,692)	(2,422)	(129,952)	(58,563)	(190,937)	25,755	13.5%
Net Investment Income	(32,255)	(5,283,555)	55,088,577	49,772,767	1,988	42,549,954	6,165,919	48,717,861	1,054,906	-2.2%
Net Amount Contributed	12,869,974	-	-	12,869,974	15,969,000	-	-	15,969,000	(3,099,026)	-19.4%
Withdrawals and Distributions	23,924	(19,954,227)	(11,282,789)	(31,213,092)	(14,694)	(24,892,250)	(10,761,360)	(35,668,304)	(4,455,212)	-12.5%
Transfers Between Asset Classes	(13,507,969)	12,146,483	1,361,486	-	(15,450,114)	29,835,884	(14,385,770)	-	-	NA
Ending Net Investment Position (*)	**$ 1,433,040**	**$ 697,274,005**	**$ 345,102,743**	**$ 1,043,809,788**	**$ 2,079,366**	**$ 710,365,304**	**$ 299,935,469**	**$ 1,012,380,139**	**$ 31,429,649**	**3.1%**

	Cash and Cash Equivalents	Debt Securities	Equity Securities	Total
Increase (Decrease) in Net Investment Position	**$ (646,326)**	**$ (13,091,299)**	**$ 45,167,274**	**$ 31,429,649**
Percentage Change in Net Investment Position	**-31.1%**	**-1.8%**	**15.1%**	**3.1%**
One Year Time Weighted Return - June 30, 2017	**0.5%**	**-0.7%**	**18.5%**	**5.0%**
One Year Time Weighted Return - June 30, 2016	**0.2%**	**6.3%**	**1.9%**	**5.0%**

(*) Net investment position includes accrued income, accrued expenses, and pending trades within each asset class

The following summarizes the changes in net investment position for each main investment category in the previous table:

- ***Cash and cash equivalents*** net investment position decreased by $(0.6) million. 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*** net investment position decreased by $(13.1) million. Net realized and unrealized losses for the fiscal year were $(25.2) million, which decreased fixed income invested balances. Contributions received increased debt securities by $12.1 million. Interest, dividends, and other investment income net of investment expenses of $20.0 million was reinvested in the fund and subsequently distributed to the beneficiary funds.

  The debt securities held within the Permanent Funds are invested in the Commingled Monthly Bond Fund (CMBF) managed by the WSIB. Performance of the CMBF was slightly negative at -0.7 percent for the year, with the portfolio underperforming the funds benchmark by forty basis points due to a more conservative quality allocation within the CMBF. The current year return decreased substantially from the prior fiscal year return of 6.3 percent. This substantial decrease in returns resulted in a decrease of net realized and unrealized gains and losses of $(42.9) million from the previous fiscal year. The decrease in investment returns is the result of a rising interest rate environment during fiscal year end June 30, 2017. Generally, higher yields on debt securities translated to lower bond prices, while an improved economic outlook resulted in tighter yield spreads. Credit bonds outperformed treasuries. Lower credit quality and emerging market credit bonds performed the best of all. For the 12 months ended June 30, 2017, long maturity treasuries dramatically underperformed short maturity ones, while longer maturity credit bonds generally outperformed shorter maturity credits.

  Reflecting general political uncertainty in the United States, U.S. Treasury yields increased in the months leading up to the election, and then rose sharply after the election into the end of the year with the anticipation of new fiscal policies for tax reform, infrastructure spending, trade, and health care. For the last six months of the fiscal year, rates generally moved up and down around the year end level. Even with higher yield levels, the global low interest rate environment persisted for the fiscal year, due to central bank policies, modest economic growth, and low inflation.

- ***Equity securities*** net investment position increased by $45.2 million. Net realized and unrealized gains increased equity securities by $43.8 million. Interest, dividends, and other investment income net of investments expenses of $11.3 million was reinvested in equity securities and subsequently distributed to the beneficiary funds. Equity balances increased by $1.4 million from a combination of contributions received and transfers from other asset classes. Realized and unrealized gains and losses in the equity portfolio increased by $48.4 million from the previous year as a result of increased investment returns. The current fiscal year return for equity securities was 18.5 percent compared to the prior year return of 1.9 percent.

  The equity securities held within the Permanent Funds are invested in the Commingled Monthly Equity Fund (CMEF) managed by the WSIB. The CMEF is invested in U.S. equity securities, which over the long-term have provided inflation protection and the strategy aims to earn a higher dividend yield to augment distributions to the beneficiary funds. The current year return of the equity portfolio closely matched the performance of the Russell 3000 (a broad barometer of the overall U.S. market) for this fiscal year. The portfolio's performance was not meaningfully differentiated by tilting toward stocks with a higher dividend yield during this period. Broadly, investors continued to find equities an attractive investment in a low interest rate environment and the U.S. equity market performed rallied. In U.S. markets, smaller cap stocks generally outperformed larger cap stocks but both segments posted strongly positive performance.

  The WSIB approved the addition of non-U.S. equities within the total 30 percent target allocation to equities for the five Permanent Funds. The timing of the transition will depend on several factors, including global equity market conditions, the amount of unrealized gains in the current U.S.-only portfolio, the overall asset mix between equities and fixed income in the Permanent Funds portfolio, and the amount and timing of contributions from DNR. The benchmark for the new portfolio will be the Morgan Stanley Capital International (MSCI) World IMI. The portfolio will use over weights to high dividend yield stocks to tilt the dividend yield of the equity portfolio towards the desired range of 3.5 to 4.0 percent.

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, 2017

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	$ 23,184	$ 330,810	$ 570,785	$ 64,986	$ 437,770	$ 4,983	$ 1,432,518	0.1%
Commingled Monthly Bond Fund	335,035	158,292,966	187,836,574	146,923,072	178,859,508	25,027,260	697,274,415	66.8%
Commingled Monthly Equity Fund	-	78,829,147	92,792,669	72,318,822	88,735,227	12,426,878	345,102,743	33.1%
Total Investments	358,219	237,452,923	281,200,028	219,306,880	268,032,505	37,459,121	1,043,809,676	100.0%
Investment Earnings Receivable	1,099	816,351	965,906	754,350	921,151	128,911	3,587,768	
Total Assets	359,318	238,269,274	282,165,934	220,061,230	268,953,656	37,588,032	1,047,397,444	
LIABILITIES								
Distributions and Other Payables	1,096	816,365	965,756	754,328	921,200	128,911	3,587,656	
NET INVESTMENT POSITION	$ 358,222	$ 237,452,909	$ 281,200,178	$ 219,306,902	$ 268,032,456	$ 37,459,121	$ 1,043,809,788	

Permanent Funds Statement of Changes in Net Investment Position - Year Ended June 30, 2017

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	$ 10,385	$ 7,133,009	$ 8,463,470	$ 6,642,978	$ 8,050,717	$ 1,130,620	$ 31,431,179
Net Realized Capital Gains	-	-	-	26,439	-	-	26,439
Unrealized Gains (Losses)	(12,293)	4,292,890	4,971,054	3,811,448	4,801,619	667,123	18,531,841
Less:							
Investment Expenses	(28)	(8,516)	(9,983)	(7,818)	(9,567)	(1,326)	(37,238)
WSIB Operating Expenses	(62)	(40,667)	(48,329)	(38,012)	(45,929)	(6,455)	(179,454)
Net Investment Income (Loss)	(1,998)	11,376,716	13,376,212	10,435,035	12,796,840	1,789,962	49,772,767
Other Changes in Net Investment Position							
Contributions	7,974	4,546,000	2,939,000	1,160,000	3,931,000	286,000	12,869,974
Withdrawals and Distributions	(8,874)	(7,083,873)	(8,405,122)	(6,597,140)	(7,995,244)	(1,122,839)	(31,213,092)
Increase (Decrease) in Net Investment Position	(2,898)	8,838,843	7,910,090	4,997,895	8,732,596	953,123	31,429,649
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
Net Investment Position - June 30, 2017	$ 358,222	$ 237,452,909	$ 281,200,178	$ 219,306,902	$ 268,032,456	$ 37,459,121	$ 1,043,809,788

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, Normal School Fund, Common School Fund, Scientific Fund, and 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 (AIS) 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 Schedules 1 and 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 2017 was $358,493. Securities lending expenses during the fiscal year totaled $183,306.

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, 2017, 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.

Schedules 1 and 2 provides information about the interest rate risks associated with the CMBF investments, as of June 30, 2017. 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, 2017.

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, 2017.

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, 2017, the fair value of the securities on loan in the CMEF and CMBF was approximately $55.1 million. The securities on loan are reported in Schedules 1 and 3 in their respective categories. At June 30, 2017, cash collateral received totaling $37.9 million was reported as a securities lending obligation, and the fair value of the reinvested cash collateral totaling $37.9 million was reported as security lending collateral in Schedules 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 Schedules 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, 2017.

In Millions:	Cash Collateral	Non-Cash Collateral	Total
Mortgage Backed Securities	$ -	$ 13.7	$ 13.7
Repurchase Agreements	16.6	-	16.6
Yankee CD	6.9	-	6.9
Commercial Paper	8.5	-	8.5
US Treasuries	-	4.5	4.5
Cash Equivalents and other	5.9	-	5.9
Total Collateral Held	**$ 37.9**	**$ 18.2**	**$ 56.1**

During Fiscal Year 2017, securities lending transactions could be terminated on demand by either the Permanent Funds or the borrower. As of June 30, 2017, the collateral held had an average duration of 19.1 days and an average weighted final maturity of 62.6 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 2017, 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 2017, 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, 2017, the only derivative securities held directly by the Permanent Funds' CMBF were collateralized mortgage obligations of $19.4 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 five 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 ten days are sent to the appropriate vendor for review and verification.

The following table presents investments measured at fair market value at June 30, 2017:

	Fair Value
INVESTMENTS - PERMANENT FUNDS	
INVESTMENTS MEASURED AT NET ASSET VALUE	
Commingled Monthly Bond Fund	$ 697,274,415
Commingled Monthly Equity Fund	345,102,743
Total Investments at Net Asset Value	1,042,377,158
Total Investments Measured at Fair Value	$ 1,042,377,158

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 State University Fund have the following asset allocation policies and benchmarks.

Asset Class	Target	Range
Unrestricted Fixed Income	70%	66%-100%
U.S. 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	$ 48,775,198	$ 2,882,714	$ 25,621,704	$ 20,270,780	$ -	4.3	Schedule 2
Corporate Bonds	287,976,085	30,833,550	103,780,295	75,013,240	78,349,000	6.9	Schedule 2
U.S. Government and Agency Securities	297,464,759	44,970,736	164,051,860	40,092,295	48,349,868	5.9	Aaa
Foreign Government and Agency Securities	34,912,500	-	15,093,250	19,819,250	-	5.4	Schedule 2
Total Debt Securities	669,128,542	$ 78,687,000	$ 308,547,109	$ 155,195,565	$ 126,698,868	6.2*	
Investments Not Required to be Categorized:							
Cash and Cash Equivalents	26,202,432						
Collateral Held Under Securities Lending Agreements	15,183,067						
Investment Earnings Receivable	4,205,268						
Total Commingled Bond Fund Assets	714,719,309						
Distributions and other payables	(2,261,827)						
Obligations Under Securities Lending Agreements	(15,183,067)						
CMBF Net Investment Position - June 30, 2017	$ 697,274,415						

* 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	$ 48,765,589	$ 12,892,860	$ 4,853,350
Aa1	-	-	-
Aa2	-	4,866,050	10,008,000
Aa3	-	20,567,450	15,350,150
A1	-	46,107,000	4,701,000
A2	9,609	61,458,660	-
A3	-	88,066,465	-
Baa1	-	33,311,450	-
Baa2	-	20,706,150	-
Baa3	-	-	-
Ba1 or Lower	-	-	-
Total	$ 48,775,198	$ 287,976,085	$ 34,912,500

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

Classification		
Cash and Cash Equivalents	$	1,688,987
Common Stock		322,173,020
Real Estate Investment Trusts		21,899,728
Income and Other Receivables		12,740,597
Collateral Held Under Securities Lending Agreements		22,774,543
Distributions and Other Payables		(13,399,589)
Obligations Under Securities Lending Agreements		(22,774,543)
Net Investment Position June 30, 2017	**$**	**345,102,743**

GUARANTEED EDUCATION TUITION 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 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, 2017, 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.

www.eidebailly.com

877 W. Main St., Ste. 800 | Boise, ID 83702-5858 | T 208.344.7150 | F 208.344.7435 | EOE

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, 2017, 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 27, 2017

www.eidebailly.com

877 W. Main St., Ste. 800 | Boise, ID 83702-5858 | T 208.344.7150 | F 208.344.7435 | EOE

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, assets, and liabilities of the GET Fund, as of June 30, 2017. 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, 2017. The following table compares the net investment position of each major investment classification at June 30, 2017, with those at June 30, 2016. In addition, they summarize the changes in each major investment classification for the fiscal year ended June 30, 2017 and 2016, as well as a comparison of investment performance, the results of financial operations, and other relevant information between the two reporting periods. 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.

As shown in the following table, the net investment position of the GET Fund increased slightly during the fiscal year ended June 30, 2017. Net withdrawals by the GET Fund participants during the year decreased net investment position by $(220.7) million. These withdrawals were offset by a net investment income of $221.5 million that was reinvested in the various asset classes. Withdrawals from the GET Fund were funded by transfers from equity securities of $(112.6) million and transfers from debt securities of $(101.5) million. The remaining withdrawal amount was funded from existing cash balances.

Net investment income increased by $227.3 million during the current fiscal year end as compared to the prior year, almost entirely from large increases in realized and unrealized gains and losses. This was the result of an increase in investment returns over the prior fiscal year. The current fiscal year return for the GET Fund was 10.9 percent compared to the prior fiscal year return of 0.6 percent. This increase in total returns was due in large part to the increase in returns in the GET Funds' equity investments over the prior fiscal year. Interest, dividend, and other investment income decreased by $(4.0) million over the prior fiscal year as fixed income balances decreased by 9.9 percent, resulting in lower interest payments received.

Net withdrawals from the GET Fund were $(270.4) million less than the prior fiscal year. The GET fund made large withdrawal requests in the prior 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 prior 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 2016 to December 2017. The GET program was closed to new enrollments and unit sales during the entire fiscal year. On July 6, 2017, the GET Committee voted to "rebase" all existing customer accounts to prepare the program for reopening to new enrollments and unit purchases and to ensure participant accounts will not lose value due to the past two years of tuition reductions at Washington's public colleges and universities. The "rebasing" process will add additional units to all current GET accounts to compensate existing participants for a reduction in the unit payout value so that it matches in-state tuition rates. It is unknown what impact reopening the GET program to new unit purchases will have on contributions and withdrawals in the future.

Summarized Change in Net Investment Position and Returns by Asset Class										
	Fiscal Year End June 30, 2017				Fiscal Year End June 30, 2016				Year Over Year Change	
	Cash and Cash Equivalents	Debt Securities (*)	Equity Securities (*)	Total	Cash and Cash Equivalents	Debt Securities (*)	Equity Securities (*)	Total	Increase (Decrease)	Percent Change
Beginning Net Investment Position (**)	$ 109,049,854	$ 926,072,537	$ 1,132,004,262	$ 2,167,126,653	$ 58,243,363	$ 1,005,441,257	$ 1,600,427,733	$ 2,664,112,353	$ (496,985,700)	-18.7%
Investment Income:										
Interest, Dividends, and Other Investment Income	679,792	2,014,683	29,433,936	32,128,411	408,901	3,297,948	32,435,578	36,142,427	(4,014,016)	-11.1%
Realized and Unrealized Gains (Losses)	-	7,771,038	182,983,263	190,754,301	-	42,067,798	(82,553,592)	(40,485,794)	231,240,095	-571.2%
Less: Investment Expenses	(578,419)	(8,126)	(813,421)	(1,399,966)	(686,282)	(34,466)	(779,811)	(1,500,559)	(100,593)	-6.7%
Net Investment Income	101,373	9,777,595	211,603,778	221,482,746	(277,381)	45,331,280	(50,897,825)	(5,843,926)	227,326,672	3890.0%
Net Withdrawals	(220,736,446)	-	-	(220,736,446)	(491,141,774)	-	-	(491,141,774)	(270,405,328)	-55.1%
Transfers Between Asset Classes	214,108,682	(101,500,000)	(112,608,682)	-	542,225,646	(124,700,000)	(417,525,646)	-	-	NA
Ending Net Investment Position (**)	**$ 102,523,463**	**$ 834,350,132**	**$ 1,230,999,358**	**$ 2,167,872,953**	**$ 109,049,854**	**$ 926,072,537**	**$ 1,132,004,262**	**$ 2,167,126,653**	**$ 746,300**	**Trace**
Increase (Decrease) in Net Investment Position	**$ (6,526,391)**	**$ (91,722,405)**	**$ 98,995,096**	**$ 746,300**						
Percentage Change in Net Investment Position	**-6.0%**	**-9.9%**	**8.7%**	**Trace**						
One Year Time Weighted Return - June 30, 2017	**0.5%**	**1.2%**	**19.6%**	**10.9%**						
One Year Time Weighted Return - June 30, 2016	**0.2%**	**5.0%**	**-3.2%**	**0.6%**						

(*) Includes cash balances used for trading purposes

(**) Net investment position includes accrued income, accrued expenses, and pending trades within each asset class

The following summarizes the changes in net investment position for each main investment category in the previous table:

- ***Cash and cash equivalents*** net investment position decreased by $(6.5) million mainly to fund withdrawal requests from this asset class. Cash balances represent 5.3 percent of total net investment position and are within policy target allocations. Cash balances fluctuate within policy ranges and are held to meet cash flow needs of the program. During the last two fiscal years, the GET Fund has held higher cash balances in anticipation of large withdrawals expected throughout 2017. Cash returns for the one-year period ended June 30, 2017, were 0.5 percent. This substantial increase over the prior year return of 0.2 percent increased interest income in the cash portfolio as compared to the prior fiscal year. Short-term interest rates have risen over the past fiscal year as a result of Federal Reserve actions. The Federal Reserve has increased the target range for the federal funds rate three times during the current fiscal year for a total of 75 basis points. Cash held within the debt and equity securities portfolio is excluded from this analysis and balance.

- ***Debt securities*** net investment position decreased by $(91.7) million. Net realized and unrealized gains increased this asset class by $7.8 million. Withdrawal requests of $(101.5) 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 net investment position and performance of debt securities includes $1.2 million of cash balances used for trading purposes.

  Interest income within the fixed income portfolio decreased from the prior fiscal year due to a reduction of the portfolio’s net investment position of 9.9 percent, mainly from withdrawal requests. In addition, average coupon rates within the debt program decreased slightly over the prior year. As bonds mature, they are typically reinvested in fixed income securities with lower interest rates, as coupon rates have been in a general state of decline for many years.

  The GET Fund invests 87 percent of debt securities in a commingled investment fund, the Daily Valued Bond Fund, managed by the WSIB. Accordingly, interest income is retained and reinvested within the commingled fund and is reflected within net realized and unrealized gains and losses within the debt portfolio. The Daily Valued Bond Fund received coupon interest payments in excess of market related price declines resulting in a net realized gain within the GET Funds debt position. The return of the commingled investment fund for the current fiscal year end was 1.9 percent, which is a substantial decrease over the prior fiscal year end return of 5.3 percent. The remaining 13 percent of debt securities are invested in U.S. Treasury securities. The GET Treasury portfolio, with an average maturity slightly less than seven years, returned -3.0 percent. The overall return of the debt securities was 1.2 percent for the fiscal year ended June 30, 2017. This substantial reduction from the prior year return resulted in a decrease of $(34.3) million in net realized and unrealized gains and losses from the previous year within the debt portfolio.

The reduction in returns is the result of a rising interest rate environment during fiscal year end June 30, 2017. Generally, higher yields on debt securities translated to lower bond prices, while an improved economic outlook resulted in tighter yield spreads. Credit bonds outperformed treasuries. Lower credit quality and emerging market credit bonds performed the best of all. For the 12 months ended June 30, 2017, long maturity treasuries dramatically underperformed short maturity ones, while longer maturity credit bonds generally outperformed shorter maturity credits.

Reflecting general political uncertainty in the United States, U.S. Treasury yields increased in the months leading up to the election, and then rose sharply after the election into the end of the year, with the anticipation of new fiscal policies for tax reform, infrastructure spending, trade, and health care. For the last six months of the fiscal year, interest rates generally moved up and down around the year end level. Even with higher yield levels, the global low interest rate environment persisted for the fiscal year, due to central bank policies, modest economic growth, and low inflation.

See Daily Valued Fund audited financials for additional information on the Bond Fund.

- ***Equity securities*** net investment position increased by $99.0 million. Withdrawal requests of $(112.6) million were funded from sales of equity securities. Net realized and unrealized gains increased equity balances by $183.0 million. The remaining increase was the result of net investment income reinvested in equity securities. Dividend and other investment income in the equity portfolio decreased by $(3.0) million over the prior fiscal year due to decreases in the average invested balances from previous highs during July to December 2015. The equity portfolio returned 19.6 percent during the current fiscal year compared to a prior year return of -3.2 percent. Accordingly, net realized and unrealized gains within the portfolio increased $265.5 million due to a significant increase in investment returns. The net investment position and performance of equity securities includes $11.4 million of cash and cash equivalents used for trading purposes.

  The GET Fund currently invests in a global equity portfolio containing both U.S. and non-U.S. equities. Overall, the U.S. equity market returned 18.4 percent and the non-U.S. market gained 20.4 percent as measured by Morgan Stanley Capital International (MSCI) indices, which are broad barometers of overall market returns. Investors continued to find global equities an attractive investment in a low interest rate environment and the non-U.S. equity market performed relatively better than the U.S. equity markets. The U.S. dollar had mixed results versus the performance of other currencies. Several non-U.S. equity markets posted strong local market returns and benefitted from the U.S. dollar depreciating in some non-U.S. markets. In the U.S., smaller cap stocks generally outperformed larger cap stocks, as well as the broader market.

As shown in the following table, securities on loan decreased by $(26.5) million and collateral held under securities lending agreements decreased accordingly. The only lendable asset within the GET Fund is U.S. Treasury Securities. The U.S. Treasury balances within the GET Fund decreased by 41 percent over the prior fiscal year, resulting in a lower lendable asset base and, accordingly less securities on loan from the prior fiscal year. Cash collateral held under securities lending agreements are reported as an asset and a liability in the accompanying Statement of Net Investment Position.

	June 30, 2017	June 30, 2016	Increase (Decrease)	Percentage Change
Securities on Loan Fiscal Year End	$ 85,689,179	$ 112,221,514	$ (26,532,335)	-23.6%
Cash Collateral Held Under Securities Lending Agreements	48,285,666	41,177,362	7,108,304	
Non-Cash Collateral Held Under Securities Lending Agreements	39,559,413	74,173,108	(34,613,695)	
Total Collateral Held	**$ 87,845,079**	**$ 115,350,470**	**$ (27,505,391)**	**-23.8%**

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, 2017

See notes to financial statements

		Percent of Total
ASSETS		
Investments:		
CASH AND CASH EQUIVALENTS	$ 115,103,789	5.3%
DEBT SECURITIES		
U.S. Government and Agency Securities	108,405,882	
Commingled Intermediate Credit	724,117,569	
Total Debt Securities	832,523,451	38.4%
EQUITY SECURITIES		
Common and Preferred Stock	1,165,253,373	
Real Estate Investment Trusts	37,519,175	
Depository Receipts and Other	15,781,093	
Total Equity Securities	1,218,553,641	56.3%
Total Investments	2,166,180,881	100.0%
Collateral Held Under Securities Lending Agreements	48,285,666	
Pending Trades and Other Investment Receivables	4,420,753	
Total Assets	2,218,887,300	
LIABILITIES		
Pending Trades and Other Payables	2,728,681	
Obligations Under Securities Lending Agreements	48,285,666	
Total Liabilities	51,014,347	
NET INVESTMENT POSITION	$ 2,167,872,953	

GET Fund Statement of Changes in Net Investment Position - Year Ended June 30, 2017

See notes to financial statements

Net Investment Income	
Investment Income	
Interest, Dividends and Other Investment Income	$ 31,335,760
Securities Lending Income	792,651
Net Realized Capital Gains	37,468,986
Unrealized Gains	153,285,315
Less:	
Securities Lending Rebates and Fees	(372,511)
Investment Expenses	(651,409)
WSIB Operating Expenses	(376,046)
Net Investment Income	221,482,746
Net Amount Withdrawn	(220,736,446)
Increase in Net Investment Position	746,300
Net Investment Position - June 30, 2016	2,167,126,653
Net Investment Position - June 30, 2017	$ 2,167,872,953

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 2017 was $0.8 million. Securities lending expenses during the fiscal year totaled $(0.4) 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 U.S., 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, 2017, 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 Bloomberg Barclays U.S. 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, 2017. 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, 2017, 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, 2017.

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 Fund manages 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 Fund's 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, 2017, was approximately $85.7 million. The securities on loan remain in the Statement of Net Investment Position in their respective categories. At June 30, 2017, cash collateral received totaling $48.3 million is reported as a securities lending obligation, and the fair value of the reinvested cash collateral totaling $48.3 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, 2017, was $87.8 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, 2017.

In Millions:	Cash Collateral	Non Cash Collateral	Total
Mortgage Backed Securities	$ -	$ 16.0	$ 16.0
Repurchase Agreements	21.1	-	21.1
Yankee CD	8.8	-	8.8
Commercial Paper	10.8	-	10.8
U.S. Treasuries	-	23.5	23.5
Cash Equivalents and Other	7.6	-	7.6
Total Collateral Held	**$ 48.3**	**$ 39.5**	**$ 87.8**

During Fiscal Year 2017, securities lending transactions could be terminated on demand by either the GET Fund or the borrower. As of June 30, 2017, the cash collateral held had an average duration of 19.1 days and an average weighted final maturity of 62.6 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 2017, 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 2017 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, 2017, 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, 2017, 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, 2017, 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, 2017 - Investment Derivative	
	Classification	**Amount**	**Amount**	**Notional**
FUTURES CONTRACTS:				
Equity Index Futures	Investment	$ 1,707,273	$ (42,425)	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, Bloomberg, 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, 2017:

		Fair Value Measurements Using:		
	Fair Value	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**
INVESTMENTS				
DEBT SECURITIES	$ 108,405,882	$ -	$ 108,405,882	$ -
EQUITY SECURITIES	1,218,553,641	1,215,831,743	2,223,600	498,298
Total Investments By Fair Value Level	1,326,959,523	1,215,831,743	110,629,482	498,298
INVESTMENTS MEASURED AT NET ASSET VALUE				
Commingled Intermediate Credit	724,117,569			
Total Investments Measured at Fair Value	$ 2,051,077,092			
OTHER ASSETS (LIABILITIES) AT FAIR VALUE				
Collateral Held Under Securities Lending Agreements	$ 48,285,666	$ -	$ 48,285,666	$ -
Margin Variation Receivable - Futures Contracts	(42,425)	(42,425)	-	-
Obligations Under Securities Lending Agreements	(48,285,666)	-	(48,285,666)	-
Total Other Assets (Liabilities) Measured at Fair Value	$ (42,425)	$ (42,425)	$ -	$ -

Debt and Equity Securities (Levels 1, 2, and 3)

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.

Investments classified as level 3 in the above table were publicly traded equity securities that have non-current, or "stale" values and are included in the table at the last traded price. The stale pricing occurred due to trading suspensions, delisting from an active exchange, or lack of investor demand. The current market values of these securities are unknown.

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 Bloomberg Barclays U.S. 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 GET 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 GET Fund's fair value at the time of purchase, nor shall its fair value exceed 6 percent of the GET 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	Maturity: 1-5 years	Maturity: 6-10 years	Maturity: More than 10 years	Effective Duration	Credit Rating
U.S. Government and Agency Securities	$ 108,405,882	$ -	$ 41,536,733	$ 66,869,149	$ -	5.9	AAA
Commingled Intermediate Credit	724,117,569	98,996,923	331,706,567	293,414,079	-	4.7	Schedule 2
	832,523,451	$ 98,996,923	$ 373,243,300	$ 360,283,228	$ -	4.9*	
Investments Not Required to be Categorized							
Equity Securities	1,218,553,641						
Cash and Cash Equivalents	115,103,789						
Total Investments Not Categorized	1,333,657,430						
Total Investments	$ 2,166,180,881						

* Duration excludes cash and cash equivalents

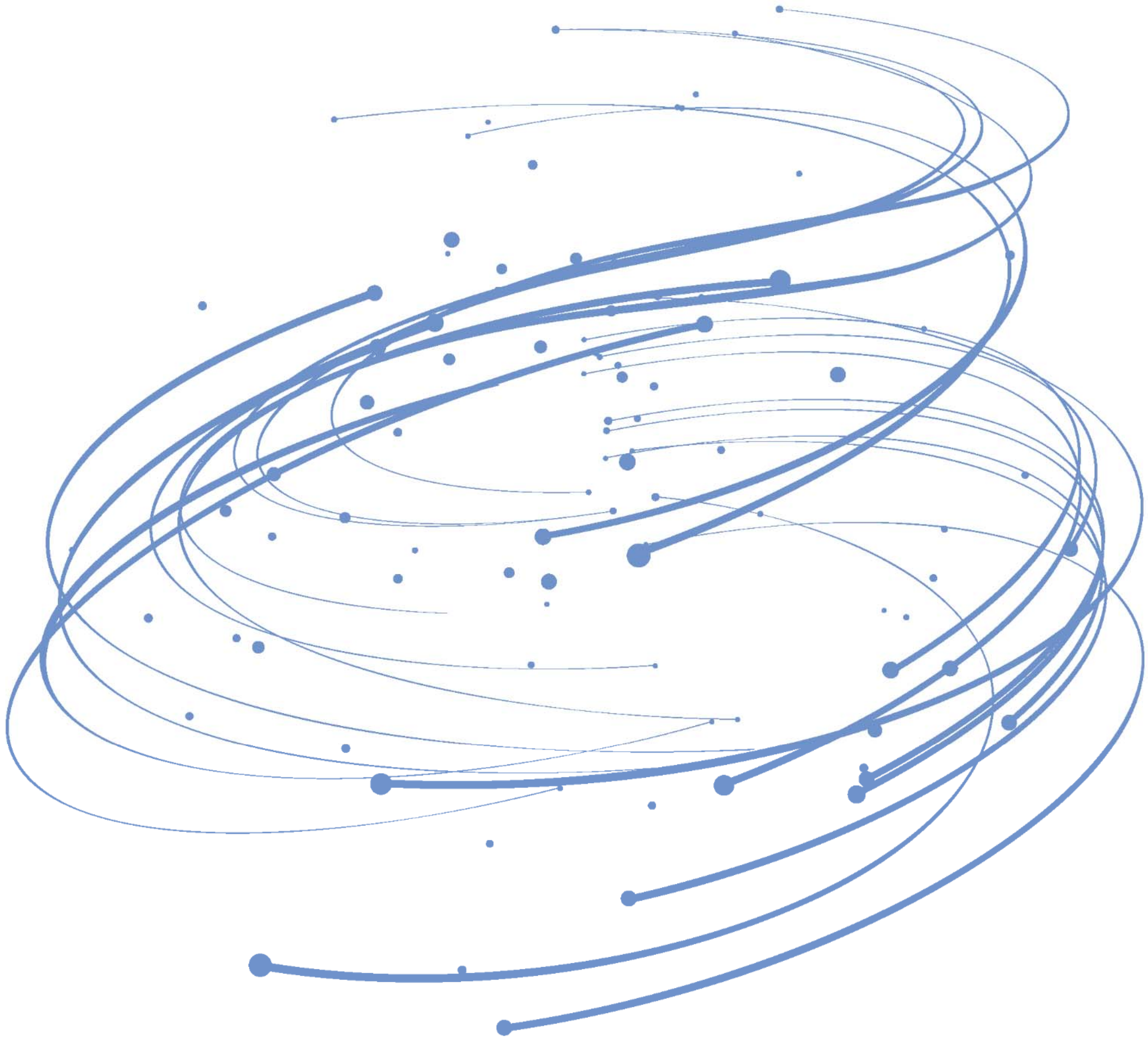
Schedule 2: Additional Credit Rating Disclosures

Moody's Equivalent Credit Rating	Commingled Intermediate Credit Total Fair Value
Aaa	$ 64,742,245
Aa1	5,717,899
Aa2	7,649,733
Aa3	63,491,686
A1	106,049,236
A2	74,907,728
A3	103,351,942
Baa1	82,023,383
Baa2	111,764,290
Baa3	79,396,828
Ba1 or Lower	25,022,599
Total Fair Value	$ 724,117,569

Schedule 3: Foreign Currency Exposure by Currency

Foreign Currency Denomination	Investment Type In U.S. Dollar Equivalent			
	Cash and Cash Equivalents	Equity Securities	Total	Percent of Total GET Funds Investments
AUSTRALIAN DOLLAR	$ 241,509	$ 28,722,879	$ 28,964,388	1.3%
BRAZILIAN REAL	241,972	8,798,452	9,040,424	0.4%
CANADIAN DOLLAR	188,060	38,282,345	38,470,405	1.8%
CHILEAN PESO	41,236	1,498,926	1,540,162	0.1%
DANISH KRONE	1,197	7,140,054	7,141,251	0.3%
EURO CURRENCY	132,272	127,480,577	127,612,849	5.9%
HONG KONG DOLLAR	533,702	41,567,104	42,100,806	1.9%
INDIAN RUPEE	266,312	13,378,792	13,645,104	0.6%
INDONESIAN RUPIAH	347,675	3,640,257	3,987,932	0.2%
JAPANESE YEN	613,800	99,992,972	100,606,772	4.6%
MALAYSIAN RINGGIT	139,550	3,376,725	3,516,275	0.2%
MEXICAN PESO (NEW)	68,631	4,939,064	5,007,695	0.2%
NEW ISRAELI SHEQEL	153,876	2,412,141	2,566,017	0.1%
NEW TAIWAN DOLLAR	664,827	18,167,462	18,832,289	0.9%
NEW ZEALAND DOLLAR	39,679	1,253,640	1,293,319	0.1%
NORWEGIAN KRONE	43,284	2,997,811	3,041,095	0.1%
PHILIPPINE PESO	11,653	1,382,499	1,394,152	0.1%
POLISH ZLOTY	18,886	1,768,040	1,786,926	0.1%
POUND STERLING	425,983	73,522,256	73,948,239	3.4%
SINGAPORE DOLLAR	160,257	5,570,681	5,730,938	0.3%
SOUTH AFRICAN RAND	29,865	8,801,125	8,830,990	0.4%
SOUTH KOREAN WON	16,922	21,705,894	21,722,816	1.0%
SWEDISH KRONA	10,725	13,597,822	13,608,547	0.6%
SWISS FRANC	1,160	33,013,214	33,014,374	1.5%
THAILAND BAHT	95,970	2,853,144	2,949,114	0.1%
TURKISH LIRA	15,164	1,776,454	1,791,618	0.1%
OTHER - MISCELLANEOUS	230,245	2,408,636	2,638,881	0.1%
	$ 4,734,412	$ 570,048,966	$ 574,783,378	26.4%

DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST 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 Developmental Disabilities Endowment Trust Fund (which are comprised of the Developmental Disabilities Endowment Trust Fund State and Developmental Disabilities Endowment Trust Fund Private) 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, 2017, 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.

www.eidebailly.com

877 W. Main St., Ste. 800 | Boise, ID 83702-5858 | T 208.344.7150 | F 208.344.7435 | EOE

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, 2017, 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 27, 2017

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, 2017. 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, 2017. The following table compares the net investment position of each major investment classification at June 30, 2017, with those at June 30, 2016. In addition, they summarize the changes in each major investment classification for the fiscal year ended June 30, 2017 and 2016, as well as a comparison of investment performance, the results of financial operations, and other relevant information between the two reporting periods. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements of the DDEF.

As shown in the following table, the net investment position of the DDEF increased by $7.0 million for the fiscal year ended June 30, 2017. Net contributions by the DDEF participants during the year increased net investment position by $2.0 million and were invested in balanced funds. Net realized and unrealized gains increased net investment position by $4.0 million. The remaining increase was attributable to net investment income reinvested within the fund.

Net investment income increased by $2.9 million during the current fiscal year as compared to the prior year, entirely due to the increases in net realized and unrealized gains and losses. This was a result of an increase in investment returns over the prior fiscal year in all asset classes except debt securities. The current fiscal year return for the DDEF was 9.3 percent compared to the prior year return of 3.9 percent. The increase in investment returns over the prior fiscal year was fueled mainly by strong investment returns in the global equity markets. The balanced funds contain a mixture of both fixed income and equity securities. The equity securities within the balanced funds contributed to the increase in returns in this asset class during the current fiscal year.

DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST FUND

	Summarized Change in Net Investment Position and Returns by Asset Class											
	Fiscal Year End June 30, 2017					Fiscal Year End June 30, 2016					Year Over Year Change	
	Cash and Cash Equivalents (*)	Debt Securities	Equity Securities (*)	Balanced Funds	Total	Cash and Cash Equivalents	Debt Securities	Equity Securities	Balanced Funds	Total	Increase (Decrease)	Percent Change
Beginning Net Investment Position	$ 30,636	$ 10,019,190	$ 1,948,348	$ 41,030,880	$ 53,029,054	$ 31,423	$ 9,516,930	$ 2,018,595	$ 37,429,510	$ 48,996,458	$ 4,032,596	8.2%
Investment Income:												
Interest, Dividends, and Other Investment Income	421	-	1,209	919,803	921,433	205	55	1,211	835,573	837,044	84,389	10.1%
Realized and Unrealized Gains (Losses)	-	189,326	377,519	3,480,227	4,047,072	-	502,260	(71,468)	766,578	1,197,370	2,849,702	238.0%
Less: Investment Expenses	(116)	(383)	(852)	(2,555)	(3,906)	(2,315)	-	(695)	(1,023)	(4,033)	(127)	-3.1%
Net Investment Income	305	188,943	377,876	4,397,475	4,964,599	(2,110)	502,315	(70,952)	1,601,128	2,030,381	2,934,218	144.5%
Net Amount Contributed	2,002,138	-	-	-	2,002,138	2,002,215	-	-	-	2,002,215	(77)	0.0%
Transfers to Other Asset Classes	(2,002,821)	383	820	2,001,618	-	(2,000,892)	(55)	705	2,000,242	-	NA	NA
Ending Net Investment Position	**$ 30,258**	**$ 10,208,516**	**$ 2,327,044**	**$ 47,429,973**	**$ 59,995,791**	**$ 30,636**	**$ 10,019,190**	**$ 1,948,348**	**$ 41,030,880**	**$ 53,029,054**	**$ 6,966,737**	**13.1%**
Increase (Decrease) in Net Investment Position	**$ (378)**	**$ 189,326**	**$ 378,696**	**$ 6,399,093**	**$ 6,966,737**							
Percentage Change in Net Investment Position	**-1.2%**	**1.9%**	**19.4%**	**15.6%**	**13.1%**							
One Year Time Weighted Return - June 30, 2017	**0.5%**	**1.9%**	**19.4%**	**10.6%**	**9.3%**							
One Year Time Weighted Return - June 30, 2016	**0.2%**	**5.3%**	**-3.5%**	**4.0%**	**3.9%**							

(*) Net investment position includes accrued income and expenses

The following summarizes the changes in net investment position for each main investment category in the previous table:

- ***Cash and cash equivalents*** net investment position remained steady with minimal change. Cash balances represent less than 1 percent of total investments and are within policy ranges. 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. Cash returns for the one-year period ended June 30, 2017, increased over the prior fiscal year to 0.5 percent resulting in an increase in interest income over the prior year. Short-term interest rates have risen over the past fiscal year as a result of Federal Reserve Actions. The Federal Reserve has increased the target range for the federal funds rate three times during the current fiscal year for a total of 75 basis points. The Net Investment Position of Cash and Cash Equivalents include accrued income and accrued expenses.

- ***Debt securities*** net investment position increased by $0.2 million. This increase is due entirely to net realized and unrealized gains within this fixed income portfolio. The DDEF invests in a commingled investment fund, the Daily Valued Bond Fund, managed by the WSIB. Accordingly, interest income is retained and reinvested within the commingled fund and is reflected in net realized and unrealized gains and losses. The Daily Valued Bond Fund received coupon interest payments in excess of price declines, resulting in a net realized gain within the DDEF's debt securities. The return of the portfolio for the current fiscal year end was 1.9 percent which is a substantial decrease over the prior fiscal year end return of 5.3 percent. This resulted in a decrease of net realized gains from the previous fiscal year.

  The reduction in returns is the result of a rising interest rate environment during the fiscal year ended June 30, 2017. Generally, higher yields on debt securities translated to lower bond prices, while an improved economic outlook resulted in tighter yield spreads. Credit bonds outperformed treasuries. Lower credit quality and emerging market credit bonds performed the best of all. For the 12 months ended June 30, 2017, long maturity treasuries dramatically underperformed short maturity ones, while longer maturity credit bonds generally outperformed shorter maturity credits. Performance for the Daily Valued Bond Fund, an intermediate credit fund, was positive for the year, with the portfolio outperforming its benchmark return by 50 basis points, primarily due to exposure to emerging markets.

  Reflecting general political uncertainty in the United States, U.S. Treasury yields increased in the months leading up to the election, and then rose sharply after the election into the end of the year, with the anticipation of new fiscal policies for tax reform, infrastructure spending, trade, and health care. For the last six months of the fiscal year, interest rates generally moved up and down around the year end level. Even with higher yields on debt securities, the global low interest rate environment persisted for the fiscal year, due to central bank policies, modest economic growth, and low inflation.

See Daily Valued Fund audited financials for additional information on this investment vehicle.

- ***Balanced mutual funds*** net investment position increased by $6.4 million. Private trust fund contributions of $2.0 million were invested in this asset class. Realized and unrealized gains increased the portfolio by $3.5 million. The remaining increase was due to the reinvestment of income within the balanced mutual 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 of the fund in the current fiscal year was 10.6 percent. The increase over the prior year return of 4.0 percent was driven by the allocation within the fund to equity securities. The increase in returns resulted in an increase of $2.7 million of net realized and unrealized gains from the previous fiscal year. See equity securities narrative below for further market information.

- ***Equity securities*** net investment position increase of $0.4 million was entirely due to net realized and unrealized gains within the portfolio during the current fiscal year. The overall investment return for equity securities in the current fiscal year of 19.4 percent substantially increased over the prior fiscal year return of -3.5 percent. This resulted in an increase in net realized and unrealized gains and losses over the previous year of $0.4 million.

  The DDEF equity portfolio is managed to passively track the broad global stock market as defined by the Morgan Stanley Capital International All Country World Investable Market Index (MSCI ACWI IMI). Overall, the U.S. equity market returned 18.4 percent and the non-U.S. market gained 20.4 percent as measured by MSCI indices, which are broad barometers of overall market returns. The DDEF equity portfolio posted a 19.4 percent return for this fiscal year. Investors continued to find global equities an attractive investment in a low interest rate environment and the non-U.S. equity market performed relatively better versus the U.S. equity markets. The U.S. dollar had mixed results versus the performance of other currencies. Several non-U.S. equity markets posted strong local market returns and benefitted from the U.S. dollar depreciating in some non-U.S. markets. In the U.S., smaller cap stocks generally outperformed larger cap stocks, as well as the broader market.

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, 2017

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	$ 20,280	$ 9,958	$ 30,238	0.1%
DEBT SECURITIES				
Commingled Intermediate Credit	10,208,516	-	10,208,516	17.0%
EQUITY SECURITIES				
Commingled Equity Index Funds	2,327,243	-	2,327,243	3.9%
BALANCED FUNDS				
Balanced Mutual Funds	-	47,429,973	47,429,973	79.0%
Total Investments	12,556,039	47,439,931	59,995,970	100.0%
Investment Earnings Receivable	16	8	24	
Total Assets	12,556,055	47,439,939	59,995,994	
LIABILITIES				
Accrued Expenses Payable	201	2	203	
NET INVESTMENT POSITION	**$ 12,555,854**	**$ 47,439,937**	**$ 59,995,791**	

DDEF Statement of Changes in Net Investment Position - Year Ended June 30, 2017

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	$ 1,347	$ 920,086	$ 921,433
Net Realized and Unrealized Gains	566,844	3,480,228	4,047,072
Less:			
Investment Expenses	(811)	(957)	(1,768)
WSIB Operating Expenses	(2,138)	-	(2,138)
Net Investment Income	565,242	4,399,357	4,964,599
Net Amount Contributed	2,138	2,000,000	2,002,138
Increase in Net Investment Position	567,380	6,399,357	6,966,737
Net Investment Position, June 30, 2016	11,988,474	41,040,580	53,029,054
Net Investment Position, June 30, 2017	$ 12,555,854	$ 47,439,937	$ 59,995,791

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 U.S., 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 U.S., 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, 2017, 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, 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 Bloomberg Barclays U.S. 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, 2017. 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, 2017, 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, 2017.

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, 2017, consists of $2.3 million invested in various global commingled equity index funds. Maximum foreign currency exposure is approximately $1.1 million within these 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, 2017:

		Fair Value Measurements Using:		
	Fair Value	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**
INVESTMENTS				
BALANCED FUNDS				
Balanced Mutual Funds	$ 47,429,973	$ 47,429,973	$ -	$ -
Total Investments By Fair Value Level	47,429,973	47,429,973	-	-
COMMINGLED INVESTMENT FUNDS - INVESTMENTS MEASURED AT NET ASSET VALUE				
Commingled Equity Index Funds	2,327,243			
Commingled Intermediate Credit	10,208,516			
Total Investments at Net Asset Value	12,535,759			
Total Investments Measured at Fair Value	$ 59,965,732			

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, 2017, was $32.77 per share, which was verified to independent sources by WSIB 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 Bloomberg Barclays U.S. 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 investment objectives of the DDEF.

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	$ 10,208,516	$ 1,395,645	$ 4,676,357	$ 4,136,514	$ -	4.7	Schedule 2
Investments Not Required to be Categorized							
Commingled Equity Index Funds	2,327,243						
Balanced Mutual Funds	47,429,973						
Money Market Funds	30,238						
Total Investments Not Categorized	49,787,454						
Total Investments	$ 59,995,970						

Schedule 2: Additional Credit Rating Disclosures

Moody's Equivalent Credit Rating	Commingled Intermediate Credit Market Value
Aaa	$ 912,728
Aa1	80,610
Aa2	107,845
Aa3	895,098
A1	1,495,068
A2	1,056,040
A3	1,457,042
Baa1	1,156,355
Baa2	1,575,639
Baa3 and below	1,472,091
Total Fair Value	$ 10,208,516

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 (which are comprised of WSOSF – Scholarship Fund, WSOSF – Endowment Fund, and WSOSF – Cash Reserve Fund) 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, 2017, 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.

www.eidebailly.com

877 W. Main St., Ste. 800 | Boise, ID 83702-5858 | T 208.344.7150 | F 208.344.7435 | EOE

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, 2017, 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 27, 2017

www.eidebailly.com

877 W. Main St., Ste. 800 | Boise, ID 83702-5858 | T 208.344.7150 | F 208.344.7435 | EOE

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, 2017. 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, 2017. The following table compares the net investment position of each major investment classification at June 30, 2017, with those at June 30, 2016. In addition, they summarize the changes in each major investment classification for the fiscal year ended June 30, 2017 and 2016, as well as compare investment performance and other relevant information between the two reporting periods. 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.

As shown in the following table, the net investment position of the WSOSF decreased by $(7.8) million during the fiscal year ended June 30, 2017. Net withdrawals from the WSOSF during the year decreased net investment position by $(14.0) million and were liquidated from cash balances. Net investment income increased net investment position by $6.2 million and was reinvested in the various asset classes of the WSOSF.

Net investment income increased by $5.6 million during the current fiscal year as compared to the prior year, mainly due to a large increase in net realized and unrealized gains and losses. The current fiscal year return for the WSOSF was 8.3 percent compared to the prior fiscal year return of -0.5 percent. The increase in total returns was due to a substantial increase in investment returns in the equity portfolio, which represents 46 percent of the net investment position of the WSOSF at June 30, 2017. The increase in returns was offset partially by a substantial decrease in returns over the prior fiscal year in the debt portfolio.

The WSOSF withdrew $(14.0) million for operations and tuition payments budgeted for Fiscal Year 2017. In the prior fiscal year, $41.0 million was invested by the WSOSF from private donations and state matching funds. These changes resulted in a net contribution and withdrawal decrease from the prior fiscal year $(55.0) million. It is anticipated that an additional $2.5 million will be contributed by the WSOSF in September 2017 from state matching funds which will be invested in cash by the WSIB. An additional $14.0 million will be contributed by October 31, 2017, from private donations which will be split, based on the asset allocation at the time of contribution, between debt and equity securities. Currently, the WSOSF is researching investment options in an effort to increase returns. They are considering withdrawing funds within the next fiscal year currently invested in cash as shown in the accompanying financial statements. The total cash balance under consideration for withdrawal is $15.9 million at June 30, 2017.

Investment income receivable and expenses are reflected in each asset class's net investment position. These balances fluctuate from year to year based on invested balances, average coupon rates, and dividend yields.

Summarized Change in Net Investment Position and Returns by Asset Class

	Fiscal Year End June 30, 2017				Fiscal Year End June 30, 2016				Year Over Year Change	
	Cash and Cash Equivalents(*)	Debt Securities	Equity Securities (*)	Total	Cash and Cash Equivalents	Debt Securities	Equity Securities	Total	Increase (Decrease)	Percent Change
Beginning Net Investment Position	$ 39,877,596	$ 15,626,302	$ 29,810,188	$ 85,314,086	$ 19,004,279	$ 8,336,768	$ 16,427,496	$ 43,768,543	$ 41,545,543	94.9%
Investment Income:										
Interest, Dividends, and Other Investment Income	178,564	-	5,860	184,424	88,855	-	5,203	94,058	90,366	96.1%
Realized and Unrealized Gains (Losses)	-	295,280	5,795,919	6,091,199	-	789,534	(237,930)	551,604	5,539,595	1004.3%
Less: Investment Expenses	(63,602)	(4,770)	(16,826)	(85,198)	(55,394)	(3,591)	(14,134)	(73,119)	12,079	-16.5%
Net Investment Income (Loss)	114,962	290,510	5,784,953	6,190,425	33,461	785,943	(246,861)	572,543	5,617,882	981.2%
Net Contribution (Withdrawal) by WSOSF	(13,984,000)	-	-	(13,984,000)	40,973,000	-	-	40,973,000	(54,957,000)	-134.1%
Transfers to Other Asset Classes	(5,145)	4,770	375	-	(20,133,144)	6,503,591	13,629,553	-	-	NA
Ending Net Investment Position	**$ 26,003,413**	**$ 15,921,582**	**$ 35,595,516**	**$ 77,520,511**	**$ 39,877,596**	**$ 15,626,302**	**$ 29,810,188**	**$ 85,314,086**	**$ (7,793,575)**	**-9.1%**

Increase (Decrease) in Net Investment Position	**$ (13,874,183)**	**$ 295,280**	**$ 5,785,328**	**$ (7,793,575)**
Percentage Change in Net Investment Position	**-34.8%**	**1.9%**	**19.4%**	**-9.1%**

One Year Time Weighted Return - June 30, 2017	**0.5%**	**1.9%**	**19.4%**	**8.3%**
One Year Time Weighted Return - June 30, 2016	**0.1%**	**5.3%**	**-3.9%**	**-0.5%**

(*) Net investment position by asset class includes investment earning receivable and accrued expenses

The following summarizes the changes in net investment position for each main investment category in the previous table:

- ***Cash and cash equivalents*** net investment position decreased by $(13.9) million during the current fiscal year almost entirely due to withdrawals from the state matching fund accounts that are invested in Short-Term Investment Funds (STIF). The WSOSF withdrew $(14.0) million during the in order to fund operating costs and scholarships for the year. Interest rates on cash and cash equivalents rose during the current fiscal year contributing to the $0.1 million increase in interest income within the cash portfolio despite a reduction of cash balances over the prior fiscal year end. Cash returns for the one year period ended June 30, 2017, was 0.5 percent. The substantial increase over the prior year return of 0.1 percent increased interest income by $0.1 million as compared to the prior fiscal year. Short-term interest rates have risen over the past fiscal year as a result of Federal Reserve Actions. The Federal Reserve has increased the target range for the federal funds rate three times during the current fiscal year for a total of 75 basis points.

- ***Debt securities*** net investment position increased by $0.3 million. This increase is due primarily to the net realized and unrealized gains reinvested within the debt portfolio. The WSOSF invests in commingled investment fund, the Daily Valued Bond Fund, managed by the WSIB. Accordingly, interest income is retained and reinvested within the commingled fund and is reflected in net realized and unrealized gains and losses in these financial statements. The Daily Valued Bond Fund received coupon interest payments in excess of market related declines resulting in a net realized gain within the WSOSF's debt position. The return of the portfolio for the current fiscal year end was 1.9 percent which is a substantial decrease over the prior fiscal year end return of 5.3 percent. This resulted in a decrease of net realized gains from the previous fiscal year of $(0.5) million.

  The reduction in returns is the result of a rising interest rate environment during fiscal year ended June 30, 2017. Generally, higher yields on debt securities translated to lower prices, while an improved economic outlook resulted in tighter yield spreads. Credit bonds outperformed treasuries. Lower credit quality and emerging market credit bonds performed the best of all. For the 12 months ended June 30, 2017, long maturity treasuries dramatically underperformed short maturity ones, while longer maturity credit bonds generally outperformed shorter maturity credits. Performance for the Daily Valued Bond Fund, an intermediate credit fund, was positive for the year, with the portfolio outperforming its benchmark return of 1.4 percent, primarily due to exposure to emerging markets.

Reflecting general political uncertainty in the United States, U.S. Treasury yields increased in the months leading up to the election, and then rose sharply after the election into the end of the year with the anticipation of new fiscal policies for tax reform, infrastructure spending, trade, and health care. For the last six months of the fiscal year, interest rates generally moved up and down around the year end level. Even with higher yields on debt securities, the global low interest rate environment persisted for the fiscal year, due to central bank policies, modest economic growth, and low inflation.

See Daily Valued Funds audited financials for additional information on this investment vehicle.

- ***Equity securities*** net investment position increased by $5.8 million entirely due to net realized and unrealized gains within the portfolio. The equity portfolio returned 19.4 percent during the current fiscal year as compared to the prior fiscal year return of -3.9 percent. This resulted in an increase of net realized and unrealized gains and losses over the prior fiscal year of $6.0 million.

  The WSOSF currently invests in a global equity portfolio containing both U.S. and non-U.S. equities. Overall, the U.S. equity market returned 18.4 percent and the non-U.S. market gained 20.4 percent as measured by Morgan Stanley Capital International (MSCI) indices, which are broad barometers of overall market returns. The equity portfolio of the WSOSF posted a 19.4 percent return for this fiscal year. Investors continued to find global equities an attractive investment in a low interest rate environment and the non-U.S. equity market performed relatively better versus the U.S. equity markets. The U.S. dollar had mixed results versus the performance of other currencies. Several non-U.S. equity markets posted strong local market returns and benefitted from the U.S. dollar depreciating in some non-U.S. markets. Generally, the local market returns benefitted from the non-U.S. markets being relatively cheaper than the U.S. equity market at the beginning of the fiscal year coupled with the expectation that the U.S. will not significantly out produce other large global markets in terms of Gross Domestic Product (GDP) growth. In the U.S., smaller cap stocks generally outperformed larger cap stocks, as well as the broader market.

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 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, 2017
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	$ 15,923,924	$ 10,051,399	$ 11,418	$ 25,986,741	33.5%
DEBT SECURITIES					
Commingled Intermediate Credit	13,078,512	2,843,070	-	15,921,582	20.6%
EQUITY SECURITIES					
Commingled Equity Index Funds	22,399,636	13,204,185	-	35,603,821	45.9%
Total Investments	51,402,072	26,098,654	11,418	77,512,144	100.0%
Investment Earnings Receivable	12,974	8,189	10	21,173	
Total Assets	51,415,046	26,106,843	11,428	77,533,317	
LIABILITIES					
Accrued Expenses Payable	7,987	4,817	2	12,806	
NET INVESTMENT POSITION	**$ 51,407,059**	**$ 26,102,026**	**$ 11,426**	**$ 77,520,511**	

Washington State Opportunity Scholarship Fund (WSOSF) Statement of Changes in Net Investment Position - Year Ended June 30, 2017

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	$ 115,903	$ 68,478	$ 43	$ 184,424
Net Realized and Unrealized Gains	3,888,972	2,202,227	-	6,091,199
Less:				
Investment Expenses	(45,361)	(26,340)	(12)	(71,713)
WSIB Operating Expenses	(9,581)	(3,904)	-	(13,485)
Net Investment Income	3,949,933	2,240,461	31	6,190,425
Cash Transfers	9,903	4,087	(13,990)	-
Net Amount Contributed (Withdrawn)	(14,000,000)	-	16,000	(13,984,000)
Increase (Decrease) in Net Investment Position	(10,040,164)	2,244,548	2,041	(7,793,575)
Net Investment Position, June 30, 2016	61,447,223	23,857,478	9,385	85,314,086
Net Investment Position, June 30, 2017	$ 51,407,059	$ 26,102,026	$ 11,426	$ 77,520,511

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 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, 2017, 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 Bloomberg Barclays U.S. Intermediate Credit Index. Increases in prevailing interest rates generally translate into decreases in fair values of fixed income investments.

Schedules 1 and 2 provide information about the interest rate risks associated with the WSOSF investments, as of June 30, 2017. 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, 2017, 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, 2017.

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, 2017, consists of $35.6 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 Bloomberg Barclays U.S. 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, 2017:

	Fair Value
INVESTMENTS	
INVESTMENTS MEASURED AT NET ASSET VALUE	
Commingled Equity Index Funds	$ 35,603,821
Commingled Intermediate Credit	15,921,582
Total Investments at Net Asset Value	51,525,403
Total Investments Measured at Fair Value	$ 51,525,403

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

The investment eligibility of the state matching funds is determined by the state constitution and laws as follows:

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

WASHINGTON STATE OPPORTUNITY SCHOLARSHIP FUNDS

Asset Allocation

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

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

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

The public equity component will be invested to track the return of the MSCI All Country World Investible Market Index (MSCI ACWI IMI). The fixed income component is invested in the WSIB Bond Market Fund, with a benchmark of the Bloomberg Barclays U.S. 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	$ 15,921,582	$ 2,176,702	$ 7,293,419	$ 6,451,461	$ -	4.7	Schedule 2
Investments Not Required to be Categorized							
Commingled Equity Index Funds	35,603,821						
Short Term Investment Funds	25,986,741						
Total Investments Not Categorized	61,590,562						
Total Investments	$ 77,512,144						

Schedule 2: Additional Credit Rating Disclosures

Moody's Equivalent Credit Rating	Commingled Intermediate Credit Market Value
Aaa	$ 1,423,525
Aa1	125,723
Aa2	168,199
Aa3	1,396,027
A1	2,331,764
A2	1,647,039
A3	2,272,457
Baa1	1,803,495
Baa2	2,457,424
Baa3	1,745,743
Ba1 and Lower	550,186
Total Fair Value	$ 15,921,582

Schedule 3: Foreign Currency Exposure

Foreign Currency Denomination	Equity Securities	Percent of Total Investments
AUSTRALIAN DOLLAR	$ 818,823	1.1%
BRAZILIAN REAL	252,487	0.3%
CANADIAN DOLLAR	1,117,788	1.4%
SWISS FRANC	950,357	1.2%
DANISH KRONE	213,367	0.3%
EURO CURRENCY	3,692,968	4.8%
POUND STERLING	2,102,768	2.7%
HONG KONG DOLLAR	1,176,779	1.5%
INDIAN RUPEE	378,987	0.5%
JAPANESE YEN	2,889,802	3.7%
SOUTH KOREAN WON	628,707	0.8%
SWEDISH KRONA	389,578	0.5%
NEW TAIWAN DOLLAR	526,082	0.7%
SOUTH AFRICAN RAND	254,917	0.3%
OTHER MISCELLANEOUS CURRENCIES	1,143,697	1.5%
Total Foreign Currency Exposure	$ 16,537,107	21.3%

DAILY VALUED FUNDS

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 Daily Valued Funds (which are comprised of the Bond Fund, Savings Pool, and TIPS Fund) 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, 2017, 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.

www.eidebailly.com

877 W. Main St., Ste. 800 | Boise, ID 83702-5858 | T 208.344.7150 | F 208.344.7435 | EOE

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, 2017, 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 27, 2017

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, 2017. 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, 2017. The following table compares the net investment position of each major investment classification at June 30, 2017, with those at June 30, 2016. In addition, they summarize the changes in each major investment classification for the fiscal year ended June 30, 2017 and 2016, as well as a comparison of investment performance, the results of financial operations, and other relevant information between the two reporting periods. 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.

As shown in the following table the net investment position of the DVF increased by $95.9 million during the fiscal year ended June 30, 2017. Net contributions from the DVF by participants during the year increased net investment position by $49.8 million. Net investment income of $46.1 million was reinvested in the various funds and also increased the net investment position of the DVF.

Net investment income was $(63.1) million lower than the previous fiscal year almost entirely due to a decrease in net realized and unrealized gains and losses within the Bond Fund and Treasury Inflation Protected Security (TIPS) Fund. Reductions in net realized and unrealized gains and losses over the previous year were the result of decreased investment returns in both the Bond Fund and TIPS Fund.

Overall, net contributions to the DVF increased $138.2 million during the current fiscal year as compared to the prior fiscal year. The Bond Fund and TIPS Fund net contributions increased by $98.8 million and $49.5 million, respectively. The Guaranteed Education Tuition (GET) Fund, a participant in the Bond Fund, withdrew $23.2 million less in the current fiscal year as compared to the prior year. See the GET Fund's audited financial statements for further information. The Savings Pool experienced an increase in net withdrawals of $10.1 million. All three daily valued funds include participants from either self-directed retirement options, or as part of the overall Target Date Fund (TDF) strategy for the defined contribution (DC) and deferred compensation programs of the state of Washington. As such, individual contributions or withdrawals are made based on instructions received from individual members and can fluctuate from year to year. Currently, the TDFs are the default option within the DC plans and are experiencing net contribution inflows from the DC participants. Both the Bond Fund and TIPS Fund are underlying components of each individual TDF glide path. During the current fiscal year, the TDF glide paths were overweight to equities. Contributions received within the TDF were allocated almost exclusively to both the Bond Fund and TIPS Fund which contributed to the increases in net contributions over the prior year.

Investment related receivables and payables, which include investments purchased and sold pending settlement over year end, income receivables and expenses payable, are reflected in each asset class's net investment position. These balances fluctuate from year to year based on invested balances or trading activity. Pending trade balances vary due to fluctuations in unsettled securities transactions each year. 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 and can vary substantially from year to year. Investment income receivables and investment expenses payable generally fluctuate within each asset class based on the invested balances each year.

Summarized Change in Net Investment Position and Returns by Asset Class	Fiscal Year End June 30, 2017				Fiscal Year End June 30, 2016				Year Over Year Change	
	Bond Fund (*)	Savings Pool (*)	TIPS Fund (*)	Total	Bond Fund (*)	Savings Pool (*)	TIPS Fund (*)	Total	Increase (Decrease)	Percent Change
Beginning Net Investment Position (**)	$ 1,824,952,448	$ 871,859,233	$ 244,076,551	$ 2,940,888,232	$ 1,815,187,360	$ 867,230,559	$ 237,681,507	$ 2,920,099,426	$ 20,788,806	0.7%
Investment Income:										
Interest, Dividends, and Other Investment Income	59,391,994	13,653,976	1,728,219	74,774,189	61,085,980	8,581,138	1,750,061	71,417,179	3,357,010	4.7%
Realized and Unrealized Gains (Losses)	(24,756,924)	7,638	(3,299,916)	(28,049,202)	29,791,949	918	8,650,970	38,443,837	(66,493,039)	-173.0%
Less: Investment Expenses	(305,366)	(315,516)	(19,295)	(640,177)	(152,319)	(535,278)	(13,242)	(700,839)	(60,662)	-8.7%
Net Investment Income (Loss)	34,329,704	13,346,098	(1,590,992)	46,084,810	90,725,610	8,046,778	10,387,789	109,160,177	(63,075,367)	-57.8%
Net Amount Contributed (Withdrawn)	17,844,062	(13,533,018)	45,535,671	49,846,715	(80,960,522)	(3,418,104)	(3,992,745)	(88,371,371)	138,218,086	156.4%
Ending Net Investment Position (**)	**$ 1,877,126,214**	**$ 871,672,313**	**$ 288,021,230**	**$ 3,036,819,757**	**$ 1,824,952,448**	**$ 871,859,233**	**$ 244,076,551**	**$ 2,940,888,232**	**$ 95,931,525**	**3.3%**
Increase (Decrease) in Net Investment Position	**$ 52,173,766**	**$ (186,920)**	**$ 43,944,679**	**$ 95,931,525**						
Percentage Change in Net Investment Position	**2.9%**	**0.0%**	**18.0%**	**3.3%**						
One Year Time Weighted Return - June 30, 2017	**1.9%**	**1.5%**	**-0.6%**	**NA**						
One Year Time Weighted Return - June 30, 2016	**5.3%**	**0.9%**	**4.6%**	**NA**						

(*) Includes cash balances used for trading purposes. Savings Pool holds cash as part of the investment strategy.
(**) Net investment position includes accrued income, accrued expenses, and pending trades within each asset class

The following summarizes the changes within each DVF net investment position listed in the previous table:

- The net investment position of the Bond Fund increased by $52.2 million. Net contributions increased the balances by $17.8 million. Net realized and unrealized losses decreased Bond Fund balances by $(24.8) million. The remaining increase was due to reinvestment of net interest income within the fund.
- The net investment position of the Savings Pool decreased by $(0.2) million. Withdrawals from the Savings Pool decreased balances by $(13.5) million. The remaining increase was due to reinvestment of net interest income within the fund.
- The net investment position of the TIPS Fund increased by $43.9 million. Net contributions increased the balances by $45.5 million. Net realized and unrealized losses decreased the TIPS Fund balances by $(3.3) million. The remaining increase was due to net investment income reinvested within the fund.

Interest income in the Bond Fund experienced a decline of $(1.7) million as compared to the previous fiscal year. The average coupon rates in the portfolio declined contributing to the decline in interest earnings. As bonds mature, they have been typically reinvested in debt securities with lower interest rates. Average coupon rates have been in a general state of decline for many years resulting in decreased average coupon rates. The Savings Pool interest earnings increased by $5.1 million during the current year. Approximately $243.6 million of Guaranteed Insurance Contracts (GIC) matured during the current fiscal year end with interest rates ranging from 0.8 percent to 1.5 percent. The proceeds from maturities were reinvested in higher interest rate GIC with interest rates ranging from 1.5 percent to 2.9 percent.

Performance for the Daily Bond Fund as of June 30, 2017, was 1.9 percent with the portfolio outperforming its benchmark by 50 basis points, primarily due to exposure to emerging markets. Performance for the TIPS Fund was negative for the year, though slightly better than the return of its benchmark. These returns substantially decreased from the previous year due to a rising interest rate environment. This reduction in returns from the previous fiscal year resulted in the decrease in net realized and unrealized gains and losses over the prior year in both funds.

Global growth continued its slow improvement and employment remained strong during the fiscal year, with a rebound in trade and a recovery in manufacturing accounting for much of the increases. Stable commodity prices enabled resource-dependent countries to strengthen, and helped Brazil and Russia escape recession. The emerging market economies continued to recover after several years of weakness.

Reflecting general political uncertainty in the United States, U.S. Treasury yields increased in the months leading up to the election, and then rose sharply after the election into the end of the year with the anticipation of new fiscal policies for tax reform, infrastructure spending, trade, and health care. For the last six months of the fiscal year, rates generally moved up and down around the year end level. Even with higher yield levels, the global low interest rate environment persisted for the fiscal year, due to central bank policies, modest economic growth, and low inflation.

Generally, the implications of this were that higher yields meant lower bond prices, while an improved economic outlook meant tighter yield spreads which resulted in better prices for credit bonds. Credit bonds outperformed treasuries, and lower quality and emerging market credits did best of all. For the current fiscal year, long maturity treasuries dramatically underperformed short maturity ones, while longer maturity credit bonds generally performed better than shorter maturity credits.

As shown in the following table, securities on loan increased by $7.3 million and collateral held under securities lending agreements increased accordingly. Regulatory changes and balance sheet considerations with market participants continued to impact the demand dynamic across asset classes and the focus on increased capital efficiency has led to demand in non-cash collateral lending activity. Non-cash collateral flexibility remains the current key driver to higher loan balances. The cash collateral held under securities lending agreements is included as an asset and a liability in the Statement of Net Investment Position.

	June 30, 2017	June 30, 2016	Increase (Decrease)	Percentage Change
Securities on Loan Fiscal Year End	$ 23,132,769	$ 15,843,484	$ 7,289,285	46.0%
Cash Collateral Held Under Securities Lending Agreements	20,264,256	624,646	19,639,610	
Non-Cash Collateral Held Under Securities Lending Agreements	3,318,575	15,548,960	(12,230,385)	
Total Collateral Held	**$ 23,582,831**	**$ 16,173,606**	**$ 7,409,225**	**45.8%**

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, 2017

See notes to financial statements

	Bond Fund	Savings Pool	TIPS Fund	Total	Percent of Total
ASSETS					
Investments					
CASH AND CASH EQUIVALENTS	$ 55,819,941	$ 134,742,127	$ 4,720,857	$ 195,282,925	6.4%
DEBT SECURITIES					
Corporate Bonds	1,595,741,453	-	-	1,595,741,453	
U.S. Government and Agency Securities	49,713,280	-	282,494,655	332,207,935	
Guaranteed Insurance Contracts	-	736,842,117	-	736,842,117	
Foreign Government and Agencies	170,976,659	-	-	170,976,659	
Total Debt Securities	1,816,431,392	736,842,117	282,494,655	2,835,768,164	93.6%
Total Investments	1,872,251,333	871,584,244	287,215,512	3,031,051,089	100.0%
Investment Earnings Receivable	14,865,402	112,012	806,728	15,784,142	
Collateral Held Under Securities Lending Agreements	20,264,256	-	-	20,264,256	
Total Assets	1,907,380,991	871,696,256	288,022,240	3,067,099,487	
LIABILITIES					
Accounts Payable	43,521	23,943	1,010	68,474	
Payable for Investments Purchased	9,947,000	-	-	9,947,000	
Obligations Under Securities Lending Agreements	20,264,256	-	-	20,264,256	
Total Liabilities	30,254,777	23,943	1,010	30,279,730	
NET INVESTMENT POSITION	$ 1,877,126,214	$ 871,672,313	$ 288,021,230	$ 3,036,819,757	

Daily Valued Funds (DVF) Statement of Changes in Net Investment Position - Year Ended June 30, 2017

See notes to financial statements

	Bond Fund	Savings Pool	TIPS Fund	Total
Net Investment Income				
Investment Income:				
Interest, Dividends and Other Investment Income	$ 59,391,994	$ 13,653,976	$ 1,728,219	$ 74,774,189
Net Realized and Unrealized Gains (Losses)	(24,756,924)	7,638	(3,299,916)	(28,049,202)
Less: Investment Expenses	(305,366)	(315,516)	(19,295)	(640,177)
Net Investment Income	34,329,704	13,346,098	(1,590,992)	46,084,810
Net Amount Contributed (Withdrawn)	17,844,062	(13,533,018)	45,535,671	49,846,715
Increase (Decrease) in Net Investment Position	52,173,766	(186,920)	43,944,679	95,931,525
Net Investment Position - June 30, 2016	1,824,952,448	871,859,233	244,076,551	2,940,888,232
Net Investment Position - June 30, 2017	$ 1,877,126,214	$ 871,672,313	$ 288,021,230	$ 3,036,819,757

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. TIPS. 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%	99.7%	N/A
Judicial Retirement Account	Trace	0.3%	N/A
Washington State Retirement System Defined Contribution Participants	22.6%	N/A	N/A
Developmental Disabilities Endowment Trust Fund	0.5%	N/A	N/A
Guaranteed Education Tuition Program	38.6%	N/A	N/A
Washington State Opportunity Scholarship Fund	0.8%	N/A	N/A
Alliance Bernstein Retirement Strategy Funds	24.2%	N/A	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 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, 2017, 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 Bloomberg Barclays U.S. 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 Bloomberg Barclays Capital U.S. Treasury Inflation Protected Securities Index.

Schedules 1 and 2 provide information about the interest rate risks associated with the DVF investments as of June 30, 2017. 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, 2017, 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, 2017.

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 has 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, 2017, 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, 2017, was approximately $23.1 million. The securities on loan remain in the Statement of Net Investment Position in their respective categories. At June 30, 2017, cash collateral received totaling $20.3 million is reported as a securities lending obligation, and the fair value of the reinvested cash collateral totaling $20.3 million is reported as security lending collateral in the Statement of Net Investment Position. Securities received as collateral where the DVF's 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, 2017, was $3.2 million. Total cash and non-cash collateral held was $23.5 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, 2017.

In Millions:	Cash Collateral	Non-Cash Collateral	Total
Mortgage Backed Securities	$ -	$ 3.1	$ 3.1
Repurchase Agreements	8.8	-	8.8
Yankee CD	3.7	-	3.7
Commercial Paper	4.5	-	4.5
Cash Equivalents and Other	3.3	0.1	3.4
Total Collateral Held	**$ 20.3**	**$ 3.2**	**$ 23.5**

During Fiscal Year 2017, securities lending transactions could be terminated on demand by either the DVF or the borrower. As of June 30, 2017, the cash collateral held had an average duration of 19.1 days and an average weighted final maturity of 62.6 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 2017, 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 2017 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, State Street Corporation (SSC). These prices are obtained from reputable pricing sources with the primary vendor of Interactive Data Corporation. 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 ten days are sent to the appropriate vendor for review and verification.

The following table presents fair value measurements as of June 30, 2017:

		Fair Value Measurements Using:		
	Fair Value	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**
INVESTMENTS				
DEBT SECURITIES				
Corporate Bonds	$ 1,595,741,453	$ -	$ 1,595,741,453	$ -
U.S. and Foreign Government and Agency Securities	503,184,594	-	503,184,594	-
Total Debt Securities	2,098,926,047	-	2,098,926,047	-
Total Investments Measured at Fair Value	$ 2,098,926,047			
OTHER ASSETS (LIABILITIES) AT FAIR VALUE				
Collateral Held Under Securities Lending Agreements	$ 20,264,256	$ -	$ 20,264,256	$ -
Obligations Under Securities Lending Agreements	(20,264,256)	-	(20,264,256)	-
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 Bloomberg Barclays U.S. 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 Bloomberg Barclays U.S. 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 20 percent of the Savings Pool upon execution of a new contract with that issuer. The maximum maturity of any GIC will not exceed seven years. The portfolio must have a weighted average maturity of four years or less.

TIPS Fund

The investment objectives of the TIPS Fund includes maintaining safety of principal, maximizing return at a prudent level of risk, and investing in a manner that will not compromise public trust. The fund is actively managed to meet or exceed the return of the Bloomberg 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 Bloomberg Barclays Capital U.S. Treasury Inflation Protected Securities Index, other than during short periods of time while managing stakeholder cash flows.

DAILY VALUED 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
Corporate Bonds	$ 1,595,741,453	$ 167,963,193	$ 777,472,850	$ 650,305,410	$ -	4.7	Schedule 2
U.S. Government and Agency Securities	332,207,935	9,958,980	168,492,521	100,161,013	53,595,421	5.0	Aaa
Guaranteed Insurance Contracts	736,842,117	194,999,805	541,842,312	-	-	N/A	Not Rated
Foreign Government and Agencies	170,976,659	18,012,231	42,654,052	110,310,376	-	5.3	Schedule 2
	2,835,768,164	$ 390,934,209	$ 1,530,461,735	$ 860,776,799	$ 53,595,421		
Investments Not Required to be Categorized							
Cash and Cash Equivalents	195,282,925						
Total Investments Not Categorized	195,282,925						
Total Investments	$ 3,031,051,089						

* Excludes cash and cash equivalents

Schedule 2: Additional Credit Rating Disclosures

Moody's Equivalent Credit Rating	Corporate Bonds	Foreign Government and Agency Securities
Aaa	$ 78,195,828	$ 34,495,245
Aa1	14,343,210	-
Aa2	10,067,617	9,121,553
Aa3	95,405,105	63,862,252
A1	238,558,641	27,463,299
A2	187,904,221	-
A3	259,255,845	-
Baa1	185,280,171	20,473,500
Baa2	275,108,015	5,250,000
Baa3	188,854,210	10,310,810
Ba1 or Lower	62,768,590	-
Total	$ 1,595,741,453	$ 170,976,659

WASHINGTON STATE INVESTMENT BOARD

2100 EVERGREEN PARK DRIVE SW
P.O. BOX 40916 • OLYMPIA WA 98504
WWW.SIB.WA.GOV