WASHINGTON STATE INVESTMENT BOARD 2020

THIRTY-NINTH ANNUAL REPORT

INTRODUCTION

Letter of Transmittal (3)
Message from the Chair (4)
Board Members and Committees (5)
Executive Management (6)
Commingled Trust Fund (CTF)
Partners and Fund Managers (7)
Asset Stewardship / ESG Integration (9)
Annual Budget (10)

LETTER OF TRANSMITTAL

After an enduring bull market and the longest economic expansion in history, our world was overdue for change. The conditions for a market correction were evident at the outset of 2020. What we could not foresee was the cause that would trigger change – a global pandemic of COVID-19 followed by social unrest triggered by a cumulative wave of racial injustice. This combination has created a twin catalyst for the broadest systemic economic shift of our lifetimes.

Economic and social change is occurring with a breadth and depth that is unprecedented and unpredictable. For investors, it's challenging and unsettling. Volatility will be the norm. But these conditions are not paralyzing, nor should they cause an upheaval in investment strategy. In fact, in many ways this environment is a proof statement for the highly diversified, long-term, opportunistic approach employed by the Washington State Investment Board.

While dramatic daily and weekly moves in the stock market capture our attention, it's important to note the difference of a richly diverse investment portfolio. For example, the WSIB's Commingled Trust Fund (the CTF is our pooled retirement fund) generated a return of -2.3 percent during the first six months of 2020 compared to the -3.1 percent return of the S&P 500 Index. For the fiscal year ending June 30, 2020, our CTF posted performance of 3.7 percent. Since its inception, it has generated an annual return of 8.6 percent. The smoothing effect of our portfolio construction came into play this year, as it does over a 50-year time horizon.

Our investment portfolios for retirement fund assets in particular are structured differently than most. Unlike the typical portfolios of most individuals and institutions, nearly half of our CTF is invested in a combination of private equity, private real estate, and private tangible assets such as farmland, timberland or essential infrastructure. These investments do not always outperform public markets in the near term, but they are not subject to the sentiment-driven daily movements of the stock market.

To prepare for a correction and with distinct recollection of the financial collapse of 2008-2009, we also made several adjustments. We reduced our public equity allocation; bolstered cash and Treasury holdings; built out data to allow for better risk stress testing. In short, we further positioned our funds for downside protection but without having to exit the market just as an economic recovery finds its footing.

Despite all of this, we have real concerns about today's environment. We see a sharpened disparity between Wall Street and Main Street. The human toll of broad economic shutdowns and an economy in rapid transformation is hard on small businesses and those who are economically or socially disadvantaged. Consumption patterns and behaviors are undergoing a sea change. Human conditions tend to affect investment conditions. This, combined with an uneven and unpredictable policy atmosphere globally, adds to uncertainties that must be considered.

As I explained to members of the Select Committee on Pension Policy in June 2020, we ultimately remain optimistic and committed to our mission of serving our stakeholders and beneficiaries. We have well-designed investment portfolios, skilled investment managers and partners, a talented and dedicated staff, and a Board that is focused singularly on investing for optimal results. We are equipped, eyes wide open, and prepared to weather the changes that are shaping all of our lives.

Sincerely,

Theresa Whitmarsh, Executive Director

MESSAGE FROM THE CHAIR

As chair of the Washington State Investment Board (WSIB), I am honored to present the WSIB's Annual Report for the fiscal year ending June 30, 2020.

In today's environment of dramatic social and economic change, the duties of serving as fiduciary for our state retirement and public trust funds has never been more important. I can assure our stakeholders and beneficiaries that our Board is distinctly focused on generating sufficient long-term investment outcomes for those who rely on our funds for their future.

The investment landscape is being reshaped by multiple forces. The COVID-19 pandemic has caused the staff of the WSIB and other state agencies to quickly decentralize people's working arrangements while finding new ways to ensure as much business-as-usual functionality as possible. The discontinuation of business travel, reliance on video-conference meeting formats, and new prioritization of health and wellness are among just some of the changes we have endured. Our Board members take very seriously the welfare of the WSIB staff and the continuity of the WSIB investment process as a whole.

Our investment process generates some of the best performance among our peers – 8.6% annual return since inception. These results translate into reduced contribution costs for our state agencies, our taxpayers and the state Legislature. The talent and resilience the WSIB staff and their investment partners/managers are vital to supporting the benefits for our public employees, state workers, firefighters, police officers, judges and students. This will continue to be our Board's focus as we navigate the unpredictable changes awaiting the investment markets and our world in general.

As of the end of fiscal year 2020, the WSIB is managing more than $145 billion in total assets, including more than $114 billion in the CTF for retirement plans. Our state's retirement system is well-funded when compared to other state systems because our state has been disciplined when setting both investment return assumptions and contribution policies for both employers and employees. Undoubtedly, the system will experience new stresses as state budgets are necessarily constrained and investment markets undergo volatility. The WSIB, in partnership with our state actuary, will do all we can to help retain the overall healthy funding status of our retirement plan system.

Our Board members also take seriously the human and social issues that come indelibly attached to investment decisions. We are increasing and broadening our commitment to diversity by ensuring accountability to gender, racial and ethnic factors wherever possible. We will hold our partners and managers to the same standards. Fairness for workers, public safety, and environmental concerns related to climate risk will be part of the lens we use when evaluating the strategy and direction of our investment program. We are committed to making investments and building partnerships that focus sharply on long-term outcomes over a time horizon of 40+ years. The balance and fair-mindedness of our Board equips us for listening, questioning, and learning. We are steadfast in focusing on investment relevance of these issues.

In each decision, our Board members genuinely consider the interests of our beneficiaries and stakeholders at large. Our staff does the hard work by bringing to us the research, education, and recommendations that allow fulfillment of our duties. The value and integrity of our investment approach will be doubly important during times of unanticipated change, and this will continue to be our priority as we consider our strategic focus for the future.

Sincerely,
Joel Sacks, 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

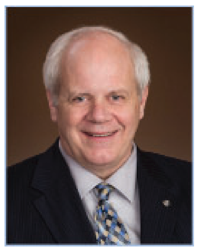
The Audit Committee has oversight of audits of Board activities and operations: compliance, risk management, internal/external audits, financial reporting, and internal controls. It is also responsible for development of policies and procedures for corporate governance and oversight of the conflict of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

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 those for the Labor & Industries (L&I) portfolio, fixed income, and equity portfolios.


Treasurer
Duane Davidson


Tracy Guerin
VIce-Chair

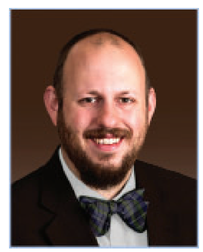

Joel Sacks
Chair


Greg Markley


Judy Kuschel

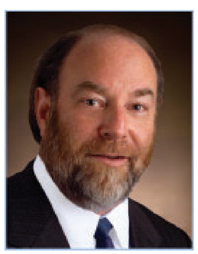

Yona Makowski


Sara Ketelsen

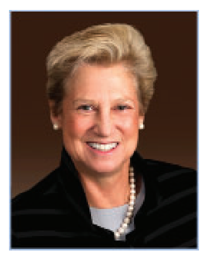

BJ Colvin


Representative
Timm Ormsby


Senator
Mark Mullet


David Nierenberg


William A. Longbrake


Ada Healey


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.

Allyson Tucker, CFA, CAIA

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. The CIO also oversees the team responsible for asset allocation and risk budgeting strategies. The division deploys both internal and external investment management strategies.

Kristina Taylor

Chief Financial Officer (CFO)

The CFO oversees the WSIB's financial operations, including investment accounting, financial reporting and portfolio administration. These capabilities enable investment transactions, fund accounting, trade settlement, cash management, private market funding, cash and stock distributions, and foreign and domestic tax matters. The CFO also oversees WSIB's travel administration team.

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 relations, 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

Actis
Advent International
Affinity Equity Partners
Alta Communications
Apax Partners
Apex Investment Partners
Austin Ventures
Banc Funds
Battery Ventures
BC Partners
BGH Capital
Blackstone Group
Bridgepoint Capital
Canaan Partners
Carlyle Group
CDH Investments
Centurium Capital
Charterhouse Capital Partners
Cinven Ltd.
Denham Capital
EIG Global Energy Partners
Endeavour Capital
Essex Woodlands
First Reserve Corp.
Fisher Lynch Capital
Fortress Investment Group
FountainVest Partners
Francisco Partners
Friedman Fleischer & Lowe
GI Partners
GTCR
HarbourVest Partners
Hellman & Friedman
Insight Venture Partners
Intersouth Partners
Kohlberg Kravis Roberts & Co.
KSL Capital Partners
Leonard Green & Partners
Madison Dearborn Partners
MatlinPatterson Global Advisors
Menlo Ventures
New Enterprise Associates
New Mountain Capital
Nordic Capital
Oak Investment Partners
Oaktree Capital Mgmt.
OVP Venture Partners
PAG Asia Capital
PAI Partners
Palamon Capital Partners
Permira
Polaris Venture Partners
Providence Equity Partners
Rhone Capital
Roark Capital Group
Searchlight Capital Partners
Sequoia Capital
Silver Lake Partners
Sixth Steet Partners
Southern Cross Group
Stone Point Capital
TA Associates
Tailwind Capital Partners
Technology Crossover Ventures
The Riverside Company
TowerBrook Capital Partners
TPG Partners
Trident Capital Partners
Triton Partners
Union Square Ventures
Unitas Capital
Vestar Capital Partners
Warburg Pincus
Wellspring Capital Management

Real Estate Partners

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

CTF PARTNERS & FUND MANAGERS

Tangibles Partners

Agriculture Capital
Alinda Capital Partners
Arable Capital
Barings
Ecosystem Investment Partners
EnerVest, Ltd
Geronimo Energy
Global Infrastructure Partners
Homestead Capital
I Squared Capital
International Farming Corporation
KKR & Co
Laguna Bay Pastoral Company
Lime Rock Resource
Oaktree Capital Management
Orion Resource Partners
Prostar Capital
Reservoir Resource Partners
Sheridan Production Partners
Silver Creek Advisory Partners
Sprott
Stonepeak Advisors
Teays River Investments
UBS Farmland Investors
Warwick Mangement Company

Public Equity Fund Managers

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.

Innovation Fund Managers

GI Partners
GSO Capital Partners
Hudson Advisors
Oak Hill Advisors
TPG Capital
True West Capital Partners

Overlay Manager

State Street Global Advisors

ASSET STEWARDSHIP / ESG INTEGRATION

The WSIB's overriding fiduciary responsibility is grounded by a mission of maximizing investment return at a prudent level of risk for the exclusive benefit of fund participants and beneficiaries. To fulfill this responsibility, the WSIB relies on global diversification, long-term strategies, and rigorous research disciplines. We also evaluate an evolving range of environmental, social and governance (ESG) issues, and we expect our investment partners and the companies in which we invest to meet high standards in their management of ESG issues. All of this affects our long-term ability to responsibly address risks and opportunities in the marketplace. To this end, the WSIB employs two vital programs.

Asset Stewardship

Our asset stewardship efforts include core corporate governance practices of proxy voting, engagement with investee companies, and collective involvement with a select number of industry groups that share our beliefs and interests. Collectively, these initiatives reflect our focus on the responsible safekeeping of assets.

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 supports our long-term investment objectives and our aim of investing with integrity, prudence and skill.

The WSIB considers the proxy voting ballot as one of the most effective tools for positively influencing companies toward greater board accountability, genuine transparency and increased focus on long-term growth strategies. The WSIB also views engagement with companies and other like-minded industry bodies as a powerful asset stewardship tool

- During fiscal year (FY) 2019, the WSIB reviewed, updated and released the revised Global Proxy Voting Policy and Guidelines, and those updated policies were implemented at the start of calendar year 2020 ahead of the proxy voting peak season, which occurs annually from March to June. The most material update to the policy was to strengthen the language and voting policies in support of board diversity at investee companies.
- The WSIB also enhanced its engagement activities with investee companies in FYs 2019 and 2020, primarily through peer networks focused on diversity and climate, including involvement with the Thirty Percent Coalition, the Climate Action 100+ and the CDP (formerly the Climate Disclosure Project).
- Between July 1, 2019 - June 30, 2020, the WSIB voted on 3,031 meetings globally, including 2,707 in the U.S. Proxy votes were cast on 26,985 individual proposals. These votes involved issues such as the election of directors, ratification of auditor, compensation-related matters and shareholder proposals. During that period, the WSIB withheld or voted against the management recommendation as follows:
  - 1,038 of 18,150 of individual director election proposals (5.7 percent)
  - 407 of 2,332 advisory votes on executive compensation (17.5 percent)
  - 10 of 240 equity compensation plans (4.1 percent)

ESG Integration

Sustainability is defined as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs." (Our Common Future, 1987). As long-term investors, the WSIB views sustainable investing as a financial imperative, and seeks to incorporate ESG factors into all aspects of the investment process where they are financially material. Our ESG integration efforts involve continually evaluating newly emerging data sets, frameworks, and analysis. Where appropriate, this information is used to inform our investment decisions and many aspects of our investment process.

During FY 2020, the WSIB hired its first Sustainability Officer. The Sustainability Officer provides input to the WSIB's Investment Committee and is responsible for monitoring, mapping and evaluating the WSIB's investments in relationship to the investment materiality of ESG factors. The desired outcome is an enhanced understanding and evaluation of investment risks and opportunities where significant ESG factors are at play. Internally, this contributes to ongoing due diligence within the investment process and an ability to evaluate WSIB investments against meaningful standards. Externally, this allows staff and Board members to provide accurate information and fact-based narrative concerning WSIB's investments in relationship to various ESG issues.

The investment industry is gradually converging around a few ESG data sets and frameworks, including the Sustainable Accounting Standards Board (SASB), Task Force on Climate-related Financial Disclosures (TCFD), and UN-backed Principles for Responsible Investing (PRI). The WSIB continually monitors and assesses the benefits of aligning with these organizations. In FY 2020, the WSIB became members of the SASB Alliance. During the year, the WSIB also contracted with Morgan Stanley Capital International (MSCI) to begin receiving its ESG data set for public equities, which it is in the process of incorporating into its internal risk management systems.

ANNUAL BUDGET

OBJECTS OF EXPENDITURE

APPROPRIATED	Budget	Expenditures	Budget Variance
Salaries	$ 17,195,140	$ 17,069,756	$ 125,384
Benefits	4,509,077	4,514,627	(5,550)
Professional Service Contracts	1,893,330	959,352	933,978
Goods and Services	4,878,841	4,386,421	492,420
Travel	480,984	339,111	141,873
Equipment	244,837	75,728	169,109
Treasury Note	85,461	83,693	1,768
Subtotal Appropriated	$ 29,287,670	$ 27,428,687	$ 1,858,983 *

NON-APPROPRIATED	Budget	Expenditures	Budget Variance
Public Equity	$ 66,836,000	$ 65,577,834	$ 1,258,166
Private Equity	310,979,000	364,053,123	(53,074,123)
Real Estate	51,771,000	31,424,001	20,346,999
Tangible Assets	108,616,000	60,477,934	48,138,066
Innovation Portfolio	19,553,000	4,507,668	15,045,332
Securities Lending	7,111,000	4,468,735	2,642,265
Cash Management	4,093,000	3,498,047	594,953
Cash Overlay	900,000	616,779	283,221
General Consultants	1,515,000	335,800	1,179,200
Staff Consultants and Contractual Services	1,345,000	858,244	486,756
Legal Fees	3,000,000	1,492,290	1,507,710
Custodian Bank Fees	500,000	1,542,995	(1,042,995)
Portfolio Verification - Shadow Investment Accounting System	1,403,000	653,429	749,571
Memberships	217,000	224,560	(7,560)
Research Services and Analytical Tools	3,835,000	3,480,336	354,664
Subtotal Non-Appropriated	581,674,000	543,211,776	38,462,224
TOTAL	$ 610,961,670	$ 570,640,464	$ 40,321,206

* The Balance will be carried forward to fiscal year 2021 since we are granted a biennial appropriation

INVESTMENTS

CTF Investment Summary of the Last Year (12)
Other Plans Under Management (16)

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 explain 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 $110.0 billion to $114.5 billion including employer and employee contributions, plus net investment returns, less benefit payments and fund transfers (this does not include Plan 3 self-directed defined contribution funds). 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. 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 7.5 percent actuarially assumed rate of return.

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 securitized bonds. The fixed income program for the CTF is actively managed by WSIB staff against a performance benchmark of the Bloomberg Barclays U.S. Universal Index.

The yield on the 10-year treasury started the fiscal year at 2.0 percent. It vacillated through the summer and fall and ended calendar 2019 at 1.9 percent. The yield fell dramatically in January, February and March landing at 0.7 percent on March 31. In the second quarter of 2020, the yield saw a low of 0.6 percent on April 3 and a high of 0.9 percent on June 5. The yield on the 10-year treasury finished at 0.7 percent on June 30, 2020. The yield was at a low of 0.5 percent in early March of 2020 and a high of 2.1 percent in mid-July of 2019.

Highlights

- The portfolio outperformed the Bloomberg Barclays U.S. Universal Index for the fiscal year
- Within the portfolio, credit bonds were over-weighted, U.S. government bonds were underweighted, and securitized bonds were underweighted
- Transactions totaled $4.9 billion in purchases and $5.1 billion in sales
- During the fiscal year, $2.2 billion in cash was transferred out of fixed income to other asset classes

Tangible Assets

The tangible assets portfolio invests in 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 distributed income generated by the assets with the remainder due to capital appreciation commensurate with inflation.

Tangible Assets was established as a separate asset class in 2007 and implemented beginning in 2008. Today, the portfolio is a well-diversified, global portfolio with a variety of partners spread among the target sectors, each investment targeting varying levels of risks.

Highlights

- The WSIB approved 7 new commitments totaling $1.7 billion, one less than last fiscal year
- $1.4 billion of committed capital was drawn during the year, slightly lower than last fiscal year
- $939.0 million in distributions were returned to the WSIB, the highest since the Tangible Asset class started
- The portfolio has a target allocation of 7.0 percent and was 5.4 percent of the CTF on June 30, 2020

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 steady income yields—a primary goal of the program. The importance of having a long-term investment horizon is evident in the attractive returns for the real estate portfolio over 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

- Four commitments totaling $2.0 billion were made
- $3.5 billion of capital was drawn down for investments
- $2.7 billion in distributions were returned to the WSIB

Public Equity

As 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, and emerging markets equity mandates are primarily actively managed. While the future progress of globalization is now being questioned, the WSIB continues to believe the future success of the public equity program depends on investment managers finding the most attractive opportunities wherever they are in the world. Long-term performance continues to be the focus, and the public equity program continues to outperform its passive benchmarks over longer periods.

This past fiscal year experienced markedly different periods of performance in the global equity markets. In this fiscal year, the first two quarters saw global equity returns, represented by the MSCI All Country World Investable Market Index with U.S. Gross, increase by 9.0 percent. The third quarter was marked by the onset of the COVID-19 pandemic which prompted governments to issue shelter in place orders and the temporary shutdown of select businesses. Global equity returns were down in the third quarter, but buoyed by massive government stimuli as well as optimism over phased re-openings of businesses, global equity returns bounced back in the final quarter of the fiscal year.

For international markets, both the developed and emerging international equity programs underperformed their benchmark. For developed markets, the result was primarily driven by a non-U.S. developed markets active manager which has a value-oriented strategy. For emerging markets, several of the WSIB's active emerging market managers were attentive to valuation levels, which resulted in the emerging markets program being tilted toward value, which strongly underperformed in emerging markets during the fiscal year.

U.S. equity markets, represented by the MSCI U.S. Investable Market Index Gross index, outperformed both non-U.S. developed and emerging markets for the year. However, our U.S. equity program still underperformed its benchmark. Underperformance was driven primarily by weak performance in a fundamentally-weighted U.S. index investment, which includes a value tilt, trailing the broader U.S. market.

Highlights

- Although the value style of investing (investing in stocks with lower valuations and less in stocks with high valuations) is one of the most consistent long-term investment strategies, this style sharply underperformed in the past fiscal year as highly valued technology-related stocks continued to lead the market
- While WSIB's public equity program includes a mix of styles, the underperformance of those components that use a value style drove the underperformance of the program over this fiscal year
- The WSIB's active global managers were able to outperform in a volatile year and continue to add value in many long-term periods

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 high-quality general partners. The portfolio is being managed to a model portfolio to ensure adequate diversification by general partner, strategy type and geography.

As of June 30, 2020, the private equity portfolio was valued at $26.2 billion, or 22.9 percent of the CTF, compared with $24.4 billion and 22.2 percent at the previous fiscal year-end. The portfolio's increase in value from the prior year reflects both the appreciation in the value of portfolio investments, as well as capital contributions into the portfolio in excess of distributions received from portfolio liquidity events during the fiscal year.

During the fiscal year, the WSIB closed on $4.1 billion of new commitments across 13 private equity funds, a significant decrease from the $6.9 billion of new commitments closed during the prior year across 18 funds. However, capital contributed for investment and expenses was slightly higher than that of the previous fiscal year, increasing by approximately $0.4 billion. Distributions from portfolio company liquidations, while still relatively strong, were relatively unchanged from distributions in the prior fiscal year.

For the first half of FY 2020, private equity fundraising and investment activity remained strong as low interest rates and accommodative credit markets continued to provide a favorable environment for financing acquisitions. However, in the second half of the fiscal year, economic activity and financial markets were disrupted by the COVID-19 pandemic, first in Asia followed quickly by Europe and the United States. As economies began to shut down with quarantines and travel restrictions and public equity markets plummeted, private equity investment and liquidation activity declined quickly and investment managers focused on the impacts in their portfolios. The environment quickly changed again as economies began to re-open and public equity markets rebounded sharply in the final quarter of FY 2020. However, private equity activity remained muted by continuing uncertainty about containment of the virus and the pace of economic recovery.

Highlights

- $4.1 billion in new commitments to funds were closed during FY 2020, compared to $6.9 billion closed in FY 2019
- $4.9 billion of capital was contributed into the portfolio during the fiscal year, slightly above the $4.5 billion in the prior year
- $4.6 billion in distributions were returned to the CTF in FY 2020 compared to $4.5 billion distributed in FY 2019

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

- During the fiscal year, commitments to a data infrastructure fund and a data infrastructure co-investment fund were approved and executed, and an increased commitment to an existing credit fund was approved

OTHER FUNDS UNDER MANAGEMENT

Defined Contribution Retirement Funds

The WSIB oversees the investment options in Plan 3: Public Employees' Retirement System (PERS), State Empolyees' Retirement System (SERS), Teachers' Retirement System (TRS), 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: $3.5 Billion

SERS 3: $2.2 Billion

TRS 3: $10.0 Billion

DCP: $4.9 Billion

JRA: $8.1 Million

Labor and Industries' (L&I) Funds

$20.4 Billion

The WSIB manages industrial insurance funds on behalf of the Department of Labor and Industries. 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

$1.2 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 global equity depending on each funds' policy regulations.

Guaranteed Education Tuition (GET) Fund

$1.5 Billion

The 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 Washington Student Achievement Council. The WSIB serves as trustee for the funds and invests them in a mix of short-term holdings, fixed income, and global equity.

Developmental Disabilities Endowment Trust Fund (DDEF)

$79.5 Million

DDEF supports individuals with developmental disabilities through private contributions and public appropriations. The WSIB invests the fund in a mix of short-term holdings, fixed income, and global equity.

Washington State Opportunity Scholarship (WSOS) Fund

$107.7 Million

This fund was created by the Washington State Legislature to encourage student participation in high employer-demand programs of study. The WSOS program is comprised of several distinct pools of assets, which can include a mix of both private funds and state matching funds.

Daily Valued Funds

Bond Fund $2.3 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 Bloomberg Barclays Intermediate Credit Index.

Savings Pool $970.7 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 $382.2 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 Bloomberg Barclays U.S. Treasury Inflation Protected Securities Index.

FINANCIALS

Overview of Financial Statements (18)
Retirement Funds (19)
Labor and Industries' Funds (55)
Permanent Funds (77)
Guaranteed Education Tuition Fund (99)
Developmental Disabilities Endowment Trust Fund (122)
Washington State Opportunity Scholarship Fund (140)
Daily Valued Funds (157)

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, 2020, 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, 2020.

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

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RETIREMENT 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 Retirement Funds (which are 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, 2020, 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.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net investment position of the Retirement Funds as of June 30, 2020, 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 Retirement Fund include investments valued at $53.0 billion (46% of total investments) as of June 30, 2020, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2020 on our consideration of the Retirement Funds' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Retirement Funds' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Retirement Funds' internal control over financial reporting and compliance.

Eide Bailly LLP

Boise, Idaho
September 25, 2020

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, 2020. 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, 2020. The following table compares the net investment position of each major investment classification at June 30, 2020, with those at June 30, 2019. In addition, the table summarizes the changes in each major investment classification for the fiscal year and compares 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 Retirement Funds' financial statements.

As shown in the following table the net investment position of the Retirements Funds increased by $4,487.0 million during the fiscal year ended June 30, 2020. Net withdrawals from the Retirement Funds during the current fiscal year decreased net investment position by $471.1 million. Net investment income increased net investment position by $4,958.1 million and was reinvested in the various asset classes of the Retirement Funds.

Net investment income decreased by $3,985.7 million during the current fiscal year as compared to the prior year, almost entirely from decreases in net realized and unrealized gains and losses. The total current fiscal year return of 3.7 percent decreased substantially over the prior year return of 8.4 percent, which resulted in the decline in net investment income. Substantial decreases in returns in both the public and private equity markets, as shown in subsequent sections of this report, were the main drivers of the decreased overall performance for the current fiscal year. The WSIB audited financial statements include market value adjustments for alternative assets as of June 30, 2020. 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 amount of market appreciation included in the audited financial statements as of June 30, 2020, which are not reflected in the official published retirement fund performance return of 3.1 percent is $2.7 billion.

Net withdrawals by the Department of Retirement System (DRS) decreased by $72.3 million from the previous fiscal year. DRS continued to see increased contribution levels from employers during the current fiscal year. Covered payroll, which is the base wage used in determining contributions, increased by 6 percent during the current fiscal year. In addition, higher member and employer contribution rates contributed to the increase in contributions received. Accordingly, DRS had a significant increase in revenue during the current fiscal year, reducing the need to liquidate investments to meet pension benefit payment requirements.

RETIREMENT FUNDS

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 are summarized in the following table and can vary significantly from year to year based on the cash needs of 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, and 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 as 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 pending trade balances 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, 2020					Fiscal Year End June 30, 2019					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 (**)	$ 1,300.7	$ 22,900.3	$ 35,424.4	$ 50,360.6	$ 109,986.0	$ 1,614.3	$ 21,814.8	$ 34,689.5	$ 43,467.0	$ 101,585.6	$ 8,400.4	8.3%
Investment Income:												
Interest, Dividends, and Other Investment Income	30.1	794.3	558.6	1,023.9	2,406.9	37.7	806.3	649.5	977.9	2,471.4	(64.5)	-2.6%
Realized and Unrealized Gains (Losses)	26.6	1,214.8	(16.4)	1,937.9	3,162.9	112.0	1,189.0	1,410.1	4,517.9	7,229.0	(4,066.1)	-56.2%
Less: Investment Expenses	(24.4)	(6.7)	(71.0)	(509.6)	(611.7)	(20.7)	(9.8)	(73.0)	(653.1)	(756.6)	(144.9)	-19.2%
Net Investment Income	32.3	2,002.4	471.2	2,452.2	4,958.1	129.0	1,985.5	1,986.6	4,842.7	8,943.8	(3,985.7)	-44.6%
Net Amount Withdrawn	(471.1)	-	-	-	(471.1)	(543.4)	-	-	-	(543.4)	(72.3)	-13.3%
Transfers Between Asset Classes	2,203.3	(2,170.0)	(174.9)	141.6	-	100.8	(900.0)	(1,251.7)	2,050.9	-	NA	NA
Ending Net Investment Position (**)	**$ 3,065.2**	**$ 22,732.7**	**$ 35,720.7**	**$ 52,954.4**	**$ 114,473.0**	**$ 1,300.7**	**$ 22,900.3**	**$ 35,424.4**	**$ 50,360.6**	**$ 109,986.0**	**$ 4,487.0**	**4.1%**
Increase (Decrease) in Net Investment Position	**$ 1,764.5**	**$ (167.6)**	**$ 296.3**	**$ 2,593.8**	**$ 4,487.0**							
Percent Change in Net Investment Position	**135.7%**	**-0.7%**	**0.8%**	**5.2%**	**4.1%**							
One Year Time Weighted Return - June 30, 2020	**1.3%**	**9.3%**	**0.5%**	**3.1%**	**3.7%**							
One Year Time Weighted Return - June 30, 2019	**2.1%**	**9.2%**	**6.0%**	**9.8%**	**8.4%**							

Debt and equity securities Include cash balances used for trading purposes

Alternative asset returns are lagged by one quarter and cover the one year period ended March 31st. Overall return includes this lagged valuation

(*) Cash and Cash Equivalents Includes cash balances used for liquidity purposes and cash overlay futures and forwards exposure

(**) 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 increased by $1,764.5 million. These balances fluctuate within policy ranges of 0.0 to 3.0 percent of the total CTF portfolio. 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, 2020, net of the returns in the overlay program, were 1.3 percent. The substantial decrease over the prior year return of 2.1 percent decreased interest income by $7.6 million as compared to the prior fiscal year. Short-term rates moved considerably lower over the fiscal year as a result of U.S. Federal Reserve (Fed) actions. The Fed decreased the target range for federal funds by 225 basis points during the fiscal year. The Net Investment Position of Cash and Cash Equivalents include accrued income and accrued expenses.

  Net realized and unrealized gains within the cash portfolio reflect the activity in the cash overlay program and are included in net investment income in the preceding table. Until mid-November 2019, the overlay program was primarily invested in equity futures. At that time, the overlay program began increasing the program’s exposure to fixed income. For the remainder of the year, the overlay program was overweight in fixed income relative to global equities but remained within policy range. From March 24 to June 26, 2020, the WSIB temporarily suspended the overlay of equities due to the unprecedented market volatility caused by the COVID-19 outbreak. During this period, the program only added new overlay futures and TBA contracts specifically tied to the CTF’s fixed income exposure.

  The size of the overlay exposure varies in response to the amount of cash the CTF holds. During the current fiscal year, the average exposure was 1.4 percent, with a range of 0.9 percent to 3.0 percent of total net investment position. The global equity market returned 1.5 percent, as measured by the MSCI All Country World Investable Market Index with U.S. Gross. The fixed income market returned 7.9 percent as measured by the U.S. Bloomberg Barclays Universal Index for the year ending June 30, 2020. With the robust return in debt markets, coupled with a small positive global equity return, the overlay program added 2 basis points to the overall return of the CTF for the fiscal year ending June 30, 2020.

- ***Debt securities*** net investment position decreased by $167.6 million. Interest income net of investment expenses of $787.6 million was reinvested in debt securities during the current fiscal year. Net realized and unrealized gains increased invested balances in this asset class by $1,214.8 million. Asset allocation rebalancing transfers were done during the year and fixed income sale proceeds of $2,170.0 million were used to fund capital calls in the alternative asset program, as well as to increase the cash balances held within the CTF. The net investment position and performance of debt securities includes $215.7 million of cash balances used for trading purposes.

Performance of the retirement fixed income portfolio was positive for the year at 9.3 percent, outperforming the benchmark return, the Bloomberg Barclays U.S. Universal Bond Index of 7.9 percent. The outperformance was due in large part to a longer maturity profile in comparison to the benchmark. The maturity profile helped the performance as the Fed responded to the COVID-19 outbreak and interest rates continued to drop. In addition, the portfolio benefitted from an overweight to emerging market credit throughout the year. While an underweight allocation to the U.S. dollar and some negative security selection in Argentinian securities had a negative impact on the total return, the fixed income returns increased slightly over the prior fiscal year. The increase in returns caused net realized and unrealized gains to increase by $25.8 million from the previous fiscal year.

The fiscal year began with the global economy in a continued slowdown. The U.S. Federal Reserve eased interest rates three times during the first half of the fiscal year by a combined total of 75 basis points. With easing monetary policy in both the U.S. and Europe, economic activity picked up steam in the second quarter of Fiscal Year 2020. Positive employment numbers were reported and trade tensions with China eased as phase one of a new trade agreement was signed. The United Kingdom (U.K.) finally agreed on a Brexit strategy, which helped ease equity market tensions. With several distractions seemingly addressed, global equity markets experienced excellent returns during the second quarter of the fiscal year.

The third quarter of fiscal year through mid-February continued to perform well, with global investors reacting positively to the massive economic stimulus in the system, robust employment numbers, and positive calendar year fourth quarter 2019 corporate earnings. The S&P 500 Index reached an all-time high on February 19, 2020. During the last few weeks in February, the focus of global investors turned to the coronavirus (COVID-19) outbreak. The fears of the economic impact of a global pandemic, both in the near and long term, sent developed countries' government bond yields lower and equity markets tumbling. Global equity markets continued to fall sharply, with the majority of the decline occurring in March.

Corporate credit spreads widened dramatically during the third quarter of the fiscal year, paralleling the drop in global equity markets. The Bloomberg Barclays U.S. Corporate High Yield Index credit spreads widened an astonishing 544 basis points, ending the quarter at 880 basis points. Investment Grade bonds performed better by widening 179 basis points, ending the quarter at 272 basis points. Corporate credit spreads widened to levels not seen since May 2009, where record highs were set during the Global Financial Crisis. Faced with an extraordinary economic shutdown, the U.S. Federal Reserve lowered the federal funds rate by 150 basis points in March to 0.25 percent.

Early in the fourth quarter of the fiscal year, the Federal Reserve restarted and expanded asset purchase programs, stating they would purchase as many government bonds as necessary to stabilize the liquidity of the government bond market. In addition, a credit purchase program was implemented to provide financial assistance to corporate borrowers. The U.S. Congress approved a record stimulus package, including extended jobless benefits along with small business loans. The stimulus package was estimated to be worth roughly 10 percent of Gross Domestic Product (GDP). Later in the fourth quarter of the fiscal year, the Fed announced they would buy investment grade and high yield bonds along with exchange traded funds (ETFs). These announcements led to large rallies in both high yield and investment grade bonds. The Fed voted unanimously to keep the Fed Funds target rate unchanged in the 0 percent to 0.25 percent range. Credit spreads rallied along with global equity markets in response to these events.

As economies started to reopen following the closures caused by the COVID-19 pandemic, economic data showed signs of a sharp rebound. The Fiscal Year 2020 ended with a very strong quarter for global equities and credit markets, as central banks and governments continued to provide enormous amounts of stimulus. High yield spreads narrowed 254 basis points to end the fiscal year at 626 basis points, while investment grade spreads narrowed

122 basis points to end at 150 basis points. With interest rates unchanged and credit spreads narrower, there was a wide dispersion of returns between various sectors in fixed income. The 10-year U.S. Treasury rate declined a total of 135 basis points during Fiscal Year 2020, with the majority of decline occurring in March.

- ***Equity securities*** net investment position increased by $296.3 million from the prior fiscal year. Dividend income net of investment expenses of $487.6 million was reinvested to equity securities during the current fiscal year. Net realized and unrealized losses decreased balances in this asset class by $16.4 million. Asset allocation rebalancing transfers were done during the year and equity sale proceeds totaling $174.9 million were transferred to other portfolios, as shown in the transfers between asset classes in the preceding table. The net investment position and performance of equity securities includes $626.2 million of cash balances used for trading purposes.

  The CTF invests equities in a global context, which includes U.S., non-U.S. developed, and emerging market securities. The majority of equity investments in the CTF are passively managed. However, over 40.0 percent of the portfolio was invested with active managers as of June 30, 2020. The total portfolio posted returns of 0.5 percent during the fiscal year, underperforming its global benchmark by 100 basis points, which had returned 1.50 percent during the period. Despite this fiscal year being challenging, returns for longer time periods (five years and longer) remain ahead of their benchmarks. Poor relative performance of the Russell Fundamental U.S. Index and Emerging Markets portfolios contributed to the CTF's underperformance during the period. Breaking out aggregate market performance by region, the broad U.S. equity market returned 6.7 percent, while non-U.S. developed markets, as represented by the MSCI World ex-U.S. IMI Index, lost 5.1 percent. Emerging markets, represented by the MSCI Emerging Markets IMI Index, fell 4.0 percent in U.S. dollar-denominated returns. All of the aforementioned returns are broad barometers of overall market returns. In the U.S., smaller cap stocks generally underperformed their larger cap peers in this fiscal year.

  In the third quarter of Fiscal Year 2020, equity markets collapsed and volatility surged amid heightened anxieties around the coronavirus pandemic and its impact on the global economy. The sell-off which began in late February, continued through March as governments around the world ordered citizens to shelter in place and businesses to remain shuttered. At their nadir, global equity markets traded 30+ percent off of their highs from the start of the year before ending the quarter down 22 percent. In the U.S., the longest bull run in history came to an end after posting the worst quarterly loss since 2008 (down 21 percent). Countries responded to the crisis by unveiling massive stimulus programs in efforts to prop up flagging economies and prevent large scale business failures. The sheer size of the fiscal and monetary responses dwarfed even that which was undertaken in 2008 during the Global Financial Crisis. In the last quarter of the fiscal year, optimism over phased re-openings of select economies and the aggressive stimulus measures stimulated the equity markets to recover some lost ground, ending the year with modestly positive returns. Despite strong near-term performance in fixed income, global equity markets continued to offer attractive returns over the long-term, outperforming the fixed income benchmark over a 10-year period, albeit with much higher volatility.

- ***Alternative investments*** net investment position increased by $2,593.8 million. Ordinary income distributions net of investment expenses increased this asset class by $514.3 million. Net realized and unrealized gains increased balances in this asset class by $1,937.9 million. During the current fiscal year, alternative asset managers called capital and expenses of $9,608.2 million and made distributions of cash and stock amounting to $9,466.6 million. Sale proceeds from other asset classes, totaling $141.6 million, were used to fund the remaining capital calls and expenses.

Investment income net of investment expenses increased by $189.5 million over the previous fiscal year resulting from an increase in income distributions from general partners of $46.0 million and a reduction of management fees and expenses paid of $143.5 million. Realized and unrealized gains decreased by $2,580.0 million over the previous fiscal year. The alternative asset portfolio returned 3.1 percent in the current year, which dropped significantly over the prior year return of 9.8 percent. The WSIB audited financial statements include market value adjustments for alternative assets as of June 30, 2020. 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 amount of market appreciation included in the audited financial statements as of June 30, 2020, which is not reflected in the official published performance return for alternative assets noted below of 3.1 percent, is $2.7 billion.

Returns for each major asset class within alternative investments are reflected in the following table:

Alternative Investment Returns *	FY 2020	FY 2019
Private Equity	-0.2%	12.3%
Real Assets	8.0%	8.7%
Tangible Assets	-0.1%	3.1%
Total Alternative Asset Return	**3.1%**	**9.8%**

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

Private equity distributions received during Fiscal Year 2020 totaled $4.6 billion, slightly less than the $4.8 billion in capital contributions for new investments and fund expenses for the same time period. While market conditions were generally favorable in the first three quarters of this period, COVID 19 brought extreme volatility to the markets in the quarter ending March 31, 2020, resulting in portfolio depreciation that more than offset the appreciation of the first three quarters. The portfolio’s value rebounded significantly in the quarter ending June 30, 2020, following the very strong performance of the public equity markets during the quarter. However, the market outlook remains uncertain as the duration of the pandemic and its ultimate economic impact are unknown at this time.

The financial downturn due to the global pandemic has impacted the real estate portfolio, as it has all asset classes managed by the WSIB. While some property types have been adversely impacted, such as hotels and non-essential retail, these comprise a relatively small percentage of the WSIB’s real estate holdings. Other property types have been marginally impacted or even positively affected, such as distribution centers and essential retail. The absence in the portfolio of large holdings in troubled property types, such as offices, malls, and hotels, has been broadly positive. On balance, the WSIB’s real estate portfolio has performed well in comparison to real estate generically thus far in the downturn, due to having a majority of holdings in more stable property types and having broad, global geographic diversification.

The tangible asset portfolio continues to grow year over year as new partnerships are added and capital calls continue to exceed distributions. Distributions did increase from last fiscal year, as some mature partnerships sold assets in the first half of the fiscal year. Both calls and distributions were lower in the second half of the fiscal year as partnerships held off investing and making distributions as they tried to understand the pandemic’s duration and effects on asset valuations.

As shown in the following table, securities on loan decreased by $1,743.8 million and collateral held under securities lending agreements decreased accordingly. The ongoing geopolitical events, such as continuous trade tensions with China, interest rate policies, and Brexit, were completely surpassed by the impact to the global markets due to the COVID-19 pandemic during the third quarter of the fiscal year. Its subsequent ramifications on the global economy and markets have remained the focus for the last few months while the Central Banks, including the U.S. Federal Reserve, have been heavily involved in the markets by offering "unlimited" Quantitative Easing (QE)/Liquidity in order to provide consistent market supply and stability. The volatility in the equities market has created investment opportunities for investors in certain market sectors, while other market sectors directly impacted by the pandemic continue to remain subdued. During the current fiscal year, after a thorough review, the WSIB discontinued lending of U.S. Treasuries in all fixed income portfolios and loan balances fell sharply as a result. The non-U.S. Equity lending program was also negatively impacted as a result of many European Union (EU) companies which have cancelled or postponed their dividends.

In Millions:	**June 30, 2020**	**June 30, 2019**	**Increase (Decrease)**	**Percent Change**
Securities on Loan Fiscal Year End	$ 423.1	$ 2,166.9	$ (1,743.8)	-80.5%
Cash Collateral Held Under Securities Lending Agreements	276.5	738.4	(461.9)	
Non-Cash Collateral Held Under Securities Lending Agreements	158.0	1,488.4	(1,330.4)	
Total Collateral Held	**$ 434.5**	**$ 2,226.8**	**$ (1,792.3)**	**-80.5%**

The returns of the various capital markets, within which the WSIB invests, directly impacts the fair value of the Retirement Funds' net investment position. These 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.

Retirement Funds Statement of Net Investment Position - June 30, 2020

See notes to financial statement

	Commingled Trust Fund	Plan-Specific Investments	Total	Percent of Plan Assets
ASSETS				
Investments:				
CASH AND CASH EQUIVALENTS	$ 3,634,514,588	$ 250,353,072	$ 3,884,867,660	3.4%
DEBT SECURITIES				
Mortgage and Other Asset Backed Securities	1,737,422,855	-	1,737,422,855	
Corporate Bonds	13,377,718,087	-	13,377,718,087	
U.S. Government and Agency Securities	5,797,379,147	-	5,797,379,147	
Foreign Government and Agency Securities	1,829,058,519	-	1,829,058,519	
Total Debt Securities	22,741,578,608	-	22,741,578,608	19.8%
EQUITY SECURITIES				
Common and Preferred Stock	20,633,107,035	-	20,633,107,035	
Commingled Equity Trusts and Mutual Funds	12,816,385,592	-	12,816,385,592	
Real Estate Investment Trusts	397,228,292	-	397,228,292	
Depository Receipts and Other Miscellaneous	1,162,867,003	-	1,162,867,003	
Total Equity Securities	35,009,587,922	-	35,009,587,922	30.6%
ALTERNATIVE INVESTMENTS				
Private Equity	26,183,381,571	-	26,183,381,571	
Real Estate	20,765,773,494	-	20,765,773,494	
Tangible Assets	6,004,125,322	-	6,004,125,322	
Total Alternative Investments	52,953,280,387	-	52,953,280,387	46.2%
Total Investments	114,338,961,505	250,353,072	114,589,314,577	100.0%
Collateral Held Under Securities Lending Agreements	276,505,738	-	276,505,738	
Investment Earnings Receivable	304,784,923	142,310	304,927,233	
Receivables for Investments Sold	52,415,904	-	52,415,904	
Open Foreign Exchange Contracts Receivable	3,778,198,857	-	3,778,198,857	
Total Assets	118,750,866,927	250,495,382	119,001,362,309	
LIABILITIES				
Obligations Under Securities Lending Agreements	276,505,738	-	276,505,738	
Investment Management Fees Payable	15,893,572	27,542	15,921,114	
Payable for Investments Purchased	465,023,147	-	465,023,147	
Open Foreign Exchange Contracts Payable	3,770,996,834	-	3,770,996,834	
Total Liabilities	4,528,419,291	27,542	4,528,446,833	
NET INVESTMENT POSITION	$ 114,222,447,636	$ 250,467,840	$ 114,472,915,476	

Retirement Funds Statement of Changes in Net Investment Position - Year Ended June 30, 2020

See notes to financial statements

	Commingled Trust Fund	Plan-Specific Investments	Total
Net Investment Income			
Investment Income:			
Interest, Dividends, and Other Investment Income	$ 2,400,393,552	$ 6,502,994	$ 2,406,896,546
Net Realized Gains	3,415,698,878	-	3,415,698,878
Unrealized Losses	(252,774,114)	-	(252,774,114)
Less:			
Investment Expenses	(589,197,501)	(321,204)	(589,518,705)
WSIB Operating Expenses	(22,133,585)	(19,149)	(22,152,734)
Net Investment Income	4,951,987,230	6,162,641	4,958,149,871
Net Withdrawal by Retirement Plans	-	(471,134,577)	(471,134,577)
Investments in Commingled Funds	839,249,829	(839,249,829)	-
Withdrawals from Commingled Funds	(1,343,793,494)	1,343,793,494	-
Increase in Net Investment Position	4,447,443,565	39,571,729	4,487,015,294
NET INVESTMENT POSITION, JUNE 30, 2019	109,775,004,071	210,896,111	109,985,900,182
NET INVESTMENT POSITION, JUNE 30, 2020	$ 114,222,447,636	$ 250,467,840	$ 114,472,915,476

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 DRS. The financial statements present only the activity of the Retirement Funds, as managed by the WSIB. The WSIB has exclusive control of the investment of all money invested in the Retirement Funds. The financial statements do not present the financial position or the results of operations of the WSIB or 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 to the basic financial statements found in Note 9.

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. See Note 9 for additional information.

Revenue Recognition

Interest and dividend income are recognized when earned. Realized 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, 2020, was $17.4 million and expenses associated with securities lending were $10.3 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 and Plan Specific Investments

The CTF is a diversified pool of investments which is used as an investment vehicle for 15 separate retirement plans. 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 for these invested balances lies with the DRS.

Note 3. Breakdown of Plan Assets

The Schedule of Participation presents the net investment position broken down by ownership by the various pension plans.

Schedule of Participation

Schedule of Participation				
RETIREMENT PLANS:	Commingled Trust Fund	Plan-Specific Investments	Total Plan Net Assets	Percent of Plan Assets
HIGHER ED. SUPPLEMENTAL INSURANCE FUND	$ -	$ 105,549,170	$ 105,549,170	0.1%
LEOFF 1	5,915,623,960	921,439	5,916,545,399	5.2%
LEOFF 2	14,557,962,308	5,511,097	14,563,473,405	12.7%
PERS 1	7,675,125,713	3,547,961	7,678,673,674	6.7%
PERS 2/3 (DC and DB Plans)	46,629,016,583	42,789,942	46,671,806,525	40.9%
PUBLIC SAFETY EMPLOYEES 2	823,461,101	8,102,199	831,563,300	0.7%
SCHOOL EMPLOYEES 2/3 (DC and DB Plans)	8,047,270,293	15,735,794	8,063,006,087	7.0%
STATE PATROL 1	1,269,428,424	303,650	1,269,732,074	1.1%
STATE PATROL 2	112,178,245	1,600,950	113,779,195	0.1%
TEACHERS 1	5,727,991,640	6,538,862	5,734,530,502	5.0%
TEACHERS 2/3 (DC and DB Plans)	22,877,598,096	59,866,376	22,937,464,472	20.0%
VOLUNTEER FIREFIGHTERS	245,160,310	400	245,160,710	0.2%
LEOFF RETIREMENT BENEFIT IMPROVEMENT	341,630,963	-	341,630,963	0.3%
Total Net Investment Position at June 30, 2020	**$ 114,222,447,636**	**$ 250,467,840**	**$ 114,472,915,476**	**100%**

* DB - Defined Benefit, DC - Defined Contribution

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's operating expenses are charged to the funds based upon actual costs incurred to manage the investments. The WSIB's 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	$ 59,828,698	$ -	$ 59,828,698	$ 16,972,546,914
Public Equity Passive Management	2,762,101	799,506	3,561,607	18,748,133,203
ALTERNATIVE INVESTMENTS:				
Private Equity	377,660,678	159,200,000	536,860,678	26,187,522,577
Real Estate	50,052,648	30,800,000	80,852,648	20,762,322,474
Tangible Assets	79,578,783	16,700,000	96,278,783	6,004,525,192
CASH MANAGEMENT	3,055,913	-	3,055,913	3,065,229,076
DEBT SECURITIES	-	-	-	22,732,636,040
OTHER FEES:				
Consultants and Accounting	997,876	-	997,876	NA
Legal Fees	1,446,447	-	1,446,447	NA
Research Services	2,518,314	-	2,518,314	NA
Securities Lending Rebates and Fees	10,253,504	-	10,253,504	NA
Miscellaneous Fees	1,363,743	-	1,363,743	NA
	$ 589,518,705	$ 207,499,506	$ 797,018,211	$ 114,472,915,476

* Netted fees are included in unrealized gains (losses) in the accompanying financial statements. Alternative investments netted fees are estimated from available information provided from general partners for the one year period ended March 31st.

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, 2020, the Retirement Funds had a total of $32,639.18 million in unfunded commitments in the following asset classes (in millions):

Private Equity	$	19,077.99
Real Estate		8,696.73
Tangibles		4,864.46
Total	$	32,639.18

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, 2020, 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. This 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, 2020, 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, 2020. 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, accounting for possible prepayments of principal amounts.

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, 2020, 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 that 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. Additionally, no high yield issues shall exceed 1 percent of cost or 2 percent of fair value of the fund. As of June 30, 2020, there was no concentration of credit risk exceeding these policy guidelines.

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, in order 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, real estate, and tangible assets 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 additional foreign currency exposure, at June 30, 2020, of $683.3 million invested in one emerging market commingled equity investment trust funds.

Note 8. Securities Lending

Washington State law and WSIB policy permit the 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, 2020, was approximately $423.1 million. The securities on loan remain in the Statement of Net Investment Position in their respective categories. At June 30, 2020, cash collateral received, totaling $276.5 million, is reported as a securities lending obligation. The fair value of the reinvested cash collateral, totaling $276.5 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, 2020, was $158.0 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, 2020.

In Millions	Cash Collateral	Non-Cash Collateral	Total
Mortgage Backed Securities	$ -	$ 24.7	$ 24.7
Repurchase Agreements	105.5	-	105.5
Yankee CD	76.7	-	76.7
Commercial Paper	71.0	-	71.0
U.S. Treasuries	-	133.3	133.3
Cash Equivalents and Other	23.3	-	23.3
Total Collateral Held	**$ 276.5**	**$ 158.0**	**$ 434.5**

During Fiscal Year 2020, securities lending transactions could be terminated on demand by either the Retirement Funds or the borrower. As of June 30, 2020, the cash collateral held had an average duration of 10.28 days and an average weighted final maturity of 33.11 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 2020, 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. During Fiscal Year 2020, 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 WSIB's Investment and Financial Services unit, which regularly monitors fair value measurements. Fair value measurements are prepared and reviewed monthly. 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. WSIB 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 issue or reduce 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, 2020:

	Fair Value	Fair Value Measurements Using: Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
INVESTMENTS				
DEBT SECURITIES				
Mortgage and Other Asset Backed Securities	$ 1,737,422,855	$ -	$ 1,737,422,855	$ -
Corporate Bonds	13,377,718,087	-	13,377,718,087	-
U.S. and Foreign Government and Agency Securities	7,626,437,666	-	7,626,437,666	-
Total Debt Securities	22,741,578,608	-	22,741,578,608	-
EQUITY SECURITIES				
Common and Preferred Stock	20,633,107,035	20,573,270,163	54,024,709	5,812,163
Depository Receipts and Other Miscellaneous	1,162,867,003	1,103,391,170	59,435,915	39,918
Mutual Funds and Exchange Traded Funds	6,702,226	6,702,226	-	-
Real Estate Investment Trusts	397,228,292	397,228,292	-	-
Tangible Asset Funds	153,097,269	153,097,269	-	-
Total Equity Securities	22,353,001,825	22,233,689,120	113,460,624	5,852,081
Total Investments By Fair Value Level	45,094,580,433	22,233,689,120	22,855,039,232	5,852,081
INVESTMENTS MEASURED AT NET ASSET VALUE				
Collective Investment Trust Funds (Equity Securities)	12,809,683,366			
Private Equity	26,183,381,571			
Real Estate	20,765,773,494			
Tangible Assets	5,851,028,053			
Total Investments at Net Asset Value	65,609,866,484			
Total Investments Measured at Fair Value	$ 110,704,446,917			
OTHER ASSETS (LIABILITIES) AT FAIR VALUE				
Collateral Held Under Securities Lending Agreements	$ 276,505,738	$ -	$ 276,505,738	$ -
Net Foreign Exchange Contracts Receivable - Forward and Spot	7,202,023	-	7,202,023	-
Margin Variation Receivable - Futures Contracts	21,901,987	21,901,987	-	-
Obligations Under Securities Lending Agreements	(276,505,738)	-	(276,505,738)	-
Total Other Assets (Liabilities) Measured at Fair Value	$ 29,104,010	$ 21,901,987	$ 7,202,023	$ -

Debt and Equity Securities (Levels 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.

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. 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.

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 $53.0 billion (46 percent of total investments) as of June 30, 2020. 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, 2020, 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	$ -	$ -	$ 153,097,269	$ 153,097,269	0.3%
Less than 3 years	74,732,079	7,749,372	682,947	83,164,398	0.2%
3 to 9 years	3,293,644,376	1,895,222,779	627,071,555	5,815,938,710	11.0%
10 years and over	22,815,005,116	18,862,801,343	5,223,273,551	46,901,080,010	88.5%
Total	$ 26,183,381,571	$ 20,765,773,494	$ 6,004,125,322	$ 52,953,280,387	100.0%

Private Equity Limited Partnerships

This includes 295 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 32 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 56 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.

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 in to 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, 2020, 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, 2020, the Retirement Funds' counterparty risk was approximately $24.6 million. The majority of the counterparties (60 percent) held a credit rating of Aa3 or higher on Moody's rating scale. All counterparties held investment grade credit ratings of Baa2 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. They 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 to rebalance the total portfolio. Derivatives, which are exchange-traded, are not subject to credit risk.

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 possibility of 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, 2020, the Retirement Funds had outstanding forward currency contracts with a net unrealized gain of $7.2 million. At June 30, 2020, 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 $3,755.7 million and $3,748.5 million, respectively. The contracts have varying settlement dates, ranging from July 2, 2020, to June 16, 2021.

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 allow 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 values of these contracts are highly sensitive to interest rate changes. As of June 30, 2020, the Retirement Funds held no total return swap contracts.

The Retirement Funds' fixed income portfolio held derivative securities consisting of collateralized mortgage obligations with a fair value of $158.2 million at June 30, 2020. 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.

	Classification	Changes in Fair Value - Included in Investment Income Amount	Fair Value at June 30, 2020 - Investment Derivative Amount	Notional
FUTURES CONTRACTS:				
Bond Index Futures	Investment	$ 77,621,318	$ 262,550	553,400,000
Equity Index Futures	Investment	(27,390,989)	21,639,437	15,113,870
		$ 50,230,329	$ 21,901,987	568,513,870
FORWARD CURRENCY CONTRACTS	Investment	$ 40,489,440	$ 7,235,314	3,752,699,308
TOTAL RETURN SWAP CONTRACTS:				
Total Return Swaps Bond	Investment	$ (2,019,103)	$ -	-
Total Return Swaps Equity	Investment	3,223,817	-	-
		$ 1,204,714	$ -	-

Note 11. Dollar Weighted Returns

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

	Dollar Weighted Return
2020	4.54%
2019	8.85%
2018	9.55%
2017	14.08%
2016	2.41%
2015	4.58%
2014	18.88%
2013	12.35%
2012	1.35%
2011	21.14%
2010	13.27%

Note 12. Summary of Investment Policy

Per Revised Code of Washington (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 U.S. 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 were no violations of these investment restrictions during Fiscal Year 2020.

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 uninvestable 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.

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 allocation. The optimal target allocation was reached during the calendar year 2019. 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.

Asset Class	Target	Policy Range	Asset Class Range
Fixed Income	20%	16% - 24%	+ or - 4%
Tangible Assets	7%	5% - 9%	+ or - 2%
Real Estate	18%	15% - 21%	+ or - 3%
Global Equity	32%	27% - 37%	+ or - 5%
Private Equity	23%	19% - 27%	+ or - 4%
Innovation Portfolio	0%	0% - 5%	5%
Cash	0%	0% - 3%	3%

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. markets, and emerging markets. The program has a global benchmark of 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 managed to achieve the highest return possible consistent with the desire to manage interest rate and credit risk, 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. Sources of outperformance are expected to include interest rate anticipation, sector rotation, credit selection, and diversification.

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 Global Family of fixed income indices.
- Investment Grade Asset Backed Securities as defined by Bloomberg Barclays global family of fixed income indices.
- Investment Grade Commercial Mortgage Backed Securities as defined by Bloomberg Barclays Global Family of fixed income indices.
- Convertible Securities.
- Non-Dollar Bonds.
- Washington State Housing Finance Commission taxable municipal bonds up to a total of $50 million, with a maximum of $10 million purchased per year.

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

Fixed Income Portfolio Constraints

- RCW 43.33A.140 prohibits a corporate fixed income issues cost from exceeding 3 percent of the Retirement CTF’s market value at the time of purchase, and prohibits 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 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 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 - 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%

Portfolio Rebalancing – Fixed Income

Asset allocation policy constraints may, from time to time, place unintended burdens on the portfolios. Therefore, policy exceptions are allowed under certain circumstances. These events include changes in market interest rates, portfolio rebalancing to strategic targets, and bond rating downgrades. The portfolio can remain outside of policy guidelines until it can be rebalanced without harming the portfolio.

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, provided it 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 while meeting 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, based on 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 and is 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 combined 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 Funds' real estate partnerships typically invest in private real estate assets that are held for long-term income and appreciation. Many of the Retirement Funds' 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 factors:

- 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 the 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 eight 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 structures of the investments are primarily targeted to those publicly traded securities, 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 400 basis points above the U.S. Consumer Price Index over a long-term investment horizon defined as at least five years.

Schedule 1: Schedule of Maturities

Investment Type	Total Fair Value	Maturity: Less than 1 year	1-5 years	6-10 years	More than 10 years	Effective Duration *
Mortgage and Other Asset Backed Securities	$ 1,486,213,608	$ 15,543,547	$ 1,425,693,938	$ 44,976,123	$ -	1.7
Corporate Bonds	13,377,718,087	871,131,785	5,360,343,714	4,744,784,890	2,401,457,698	6.7
U.S. Government and Agency Securities	5,797,379,147	-	2,442,951,178	1,703,870,313	1,650,557,656	9.4
Foreign Government and Agency Securities	1,829,058,519	343,544,791	1,097,199,968	303,062,044	85,251,716	3.7
Totally Internally Managed Fixed Income	22,490,369,361	1,230,220,123	10,326,188,798	6,796,693,370	4,137,267,070	6.8
Mortgage Backed TBA Forwards	251,209,247	251,209,247	-	-	-	0.0
Total Retirement Funds Investment Categorized	22,741,578,608	$ 1,481,429,370	$ 10,326,188,798	$ 6,796,693,370	$ 4,137,267,070	6.7
Investments Not Required to be Categorized						
Cash and Cash Equivalents	3,884,867,660					
Equity Securities	35,009,587,922					
Alternative Investments	52,953,280,387					
Total Investments Not Categorized	91,847,735,969					
Total Investments	$ 114,589,314,577					

* Excludes cash balances in calculation

Schedule 2: Credit Rating Disclosures

Moodys Equivalent Credit Rating	Investment Type: Total Fair Value	Mortgage and Other Asset Backed Securities	Corporate Bonds	U.S. Government and Agency Securities	Foreign Government and Agency Securities
Aaa	$ 8,201,156,952	$ 1,737,036,060	$ 508,469,250	$ 5,797,379,147	$ 158,272,495
Aa1	356,853,906	-	104,974,400	-	251,879,506
Aa2	330,898,156	-	297,621,736	-	33,276,420
Aa3	743,837,199	-	549,100,559	-	194,736,640
A1	1,309,354,829	-	898,176,995	-	411,177,834
A2	1,729,133,905	-	1,729,133,905	-	-
A3	1,867,478,040	-	1,867,478,040	-	-
Baa1	1,625,409,774	-	1,577,516,763	-	47,893,011
Baa2	2,555,897,701	386,795	2,300,785,928	-	254,724,978
Baa3	1,918,590,924	-	1,784,595,632	-	133,995,292
Ba1 or Lower	2,102,967,222	-	1,759,864,879	-	343,102,343
Total	$ 22,741,578,608	$ 1,737,422,855	$ 13,377,718,087	$ 5,797,379,147	$ 1,829,058,519

Schedule 3: Foreign Currency Exposure

Foreign Currency Denomination	Investment Type In U.S. Dollar Equivalent						Percent of Total Investment Balances
	Cash and Cash Equivalents	Debt Securities	Equity Securities	Alternative Assets	Open Foreign Exchange Contracts - Net	Total	
AUSTRALIAN DOLLAR	$ 2,765,757	$ 73,206,441	$ 469,326,421	$ 180,509,155	$ 47,275	$ 725,855,049	0.6%
BRAZILIAN REAL	236,575	51,262,623	208,147,029	-	(1,915)	259,644,312	0.2%
CANADIAN DOLLAR	9,242,944	-	675,523,352	-	82,776	684,849,072	0.6%
SWISS FRANC	1,593,796	-	956,262,711	-	(1,050,649)	956,805,858	0.8%
CHILEAN PESO	218,866	50,037,451	13,048,520	-	-	63,304,837	0.1%
YUAN RENMINBI	1,466,880	27,583,722	289,491,322	-	56,539	318,598,463	0.3%
CHINESE RENMINBI	85,425	-	-	-	220,675	306,100	0.0%
COLOMBIAN PESO	195,079	59,949,031	5,677,107	-	-	65,821,217	0.1%
DANISH KRONE	46,600	-	264,911,510	-	117,725	265,075,835	0.2%
EURO CURRENCY	6,604,924	-	2,766,041,354	3,590,106,826	1,756,006	6,364,509,110	5.6%
POUND STERLING	6,255,903	-	1,589,087,950	-	1,575,068	1,596,918,921	1.4%
HONG KONG DOLLAR	11,049,953	-	1,190,306,680	-	(465)	1,201,356,168	1.0%
INDONESIAN RUPIAH	71,724	22,045,025	58,564,553	-	-	80,681,302	0.1%
INDIAN RUPEE	-	37,618,363	90,520,093	-	-	128,138,456	0.1%
JAPANESE YEN	16,482,509	-	2,257,803,855	-	2,618,553	2,276,904,917	2.0%
SOUTH KOREAN WON	-	-	441,096,653	-	(9,241)	441,087,412	0.4%
MEXICAN PESO (NEW)	114,051	33,513,611	68,201,803	-	271,224	102,100,689	0.1%
NORWEGIAN KRONE	307,411	-	46,299,862	-	154,206	46,761,479	0.0%
NEW ZEALAND DOLLAR	169,196	-	29,826,978	-	1,186,112	31,182,286	0.0%
SWEDISH KRONA	799,135	-	295,106,375	-	(434,832)	295,470,678	0.3%
SINGAPORE DOLLAR	2,599,716	-	144,563,217	-	213,059	147,375,992	0.1%
THAILAND BAHT	97,184	-	55,706,698	-	-	55,803,882	0.0%
NEW TAIWAN DOLLAR	135,458	-	289,376,251	-	-	289,511,709	0.3%
TURKISH LIRA	113,932	-	66,824,690	-	(1,050,969)	65,887,653	0.1%
URUGUAYAN PESO	-	44,502,737	-	-	-	44,502,737	0.0%
SOUTH AFRICAN RAND	4,261,928	-	93,361,484	27,560,937	609,953	125,794,302	0.1%
MISCELLANEOUS	805,594	8,101,716	98,974,796	-	840,923	108,723,029	0.1%
Total Foreign Currency Exposure	$ 65,720,540	$ 407,820,720	$ 12,464,051,264	$ 3,798,176,918	$ 7,202,023	$ 16,742,971,465	14.6%

CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Members of the Washington State Investment Board

Olympia, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Retirement Funds as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Retirement Funds' financial statements, and have issued our report thereon dated September 25, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Retirement Funds' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Retirement Funds' internal control. Accordingly, we do not express an opinion on the effectiveness of the Retirement Funds' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Retirement Funds' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Retirement Funds' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Retirement Funds' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Boise, Idaho
September 25, 2020

LABOR AND INDUSTRIES' 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 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, 2020, 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.

Auditor's Responsibility

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

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

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appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net investment position of the Labor and Industries' Funds as of June 30, 2020, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2020 on our consideration of the Labor and Industries' Funds' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Labor and Industries' Funds' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Labor and Industries' Funds' internal control over financial reporting and compliance.

Eide Bailly LLP

Boise, Idaho

September 25, 2020

Management Discussion and Analysis

Management's Discussion and Analysis for the Labor and Industries' (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, 2020. 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, 2020. The following table compares the net investment position of each major investment classification at June 30, 2020, with those at June 30, 2019. In addition, the table summarizes the changes in each major investment classification for the fiscal year, and it compares 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 L&I Funds financial statements.

As shown in the following table, the net investment position of the L&I Funds increased by $1,808.6 million during the fiscal year ended June 30, 2020. Net withdrawals from the L&I Funds during the year decreased net investment position by $27.9 million. Net investment income increased net investment position by $1,836.4 million and was retained and reinvested in the various asset classes of the L&I Funds.

Net investment income increased by $390.3 million during the current fiscal year as compared to the prior year, in large part due to increases in net realized and unrealized gains in debt securities. The current fiscal year return for the L&I Funds was 9.8 percent, compared to the prior fiscal year return of 8.4 percent. The overall increase in returns resulted in the increase in net realized and unrealized gains from the prior fiscal year of $390.5 million.

Net contributions and withdrawals from the L&I Funds decreased by $114.8 million from the prior fiscal year as a direct result of insurance premium rate reductions. The Accident Account premium rates decreased 7.5 percent on January 1, 2019, and 3.0 percent on January 1, 2020. The Medical Aid Account premium rates decreased 7.5 percent on January 1, 2019, and 3.0 percent on January 1, 2020. In addition, the impact of the COVID-19 pandemic has resulted in a decline in reported hours by employers, which translates to lower premium collections available for investment.

As required by RCW 51.44.080, the L&I Funds' evaluate the assets and liabilities of the Pension Reserve Account at the end of each fiscal year. As a result of this evaluation, $629.3 million was transferred from the Accident Fund in order to balance the Pension Reserve Accounts assets with its liabilities. This is reflected as a residual equity transfer in the accompanying financials. See L&I Comprehensive Annual Financial Report for more information.

Investment related receivables and payables, which include investments purchased and sold pending settlement over year end, income receivables, and expenses payable, are reflected in the net investment position for each asset class. 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, 2020				Fiscal Year End June 30, 2019				Year Over Year Change	
	Debt Securities (*)	Equity Securities	Alternative Assets	Total	Debt Securities (*)	Equity Securities	Alternative Assets	Total	Increase (Decrease)	Percent Change
Beginning Net Investment Position (**)	$ 15,753,540,245	$ 2,808,941,574	$ -	$ 18,562,481,819	$ 14,721,171,561	$ 2,308,263,686	$ -	$ 17,029,435,247	$ 1,533,046,572	9.0%
Investment Income:										
Interest, Dividends, and Other Investment Income	508,192,357	649,206	-	508,841,563	505,619,904	596,176	-	506,216,080	2,625,483	0.5%
Realized and Unrealized Gains (Losses)	1,170,256,183	168,482,080	(766,614)	1,337,971,649	827,142,448	120,288,673	-	947,431,121	390,540,528	41.2%
Less: Investment Expenses	(8,670,315)	(1,495,696)	(222,744)	(10,388,755)	(6,881,269)	(690,374)	-	(7,571,643)	2,817,112	37.2%
Net Investment Income (Loss)	1,669,778,225	167,635,590	(989,358)	1,836,424,457	1,325,881,083	120,194,475	-	1,446,075,558	390,348,899	27.0%
Net Contributions (Withdrawals)	(28,480,018)	610,297	1,150	(27,868,571)	86,504,464	466,550	-	86,971,014	(114,839,585)	-132.0%
Transfers to Other Asset Classes	(383,064,187)	370,479,530	12,584,657	-	(380,016,863)	380,016,863	-	-	-	NA
Ending Net Investment Position (**)	**$ 17,011,774,265**	**$ 3,347,666,991**	**$ 11,596,449**	**$ 20,371,037,705**	**$ 15,753,540,245**	**$ 2,808,941,574**	**$ -**	**$ 18,562,481,819**	**$ 1,808,555,886**	**9.7%**

	Debt Securities (*)	Equity Securities	Alternative Assets	Total
Increase in Net Investment Position	$ 1,258,234,020	$ 538,725,417	$ 11,596,449	$ 1,808,555,886
Percent Change in Net Investment Position	8.0%	19.2%	NA	9.7%
One Year Time Weighted Return - June 30, 2020	10.8%	1.5%	-7.8%	9.8%
One Year Time Weighted Return - June 30, 2019	9.0%	5.1%	NA	8.4%

(*) 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 $1,258.2 million. Interest income net of expenses of $499.5 million was reinvested in debt securities during the current fiscal year. Net realized and unrealized gains increased balances in this asset class by $1,170.3 million. The WSIB sold fixed income securities during the year and the proceeds of $383.1 million were transferred and reinvested in other asset classes. Due to the unprecedented equity market declines during March 2020, the L&I Funds rebalanced to strategic asset allocation targets and $370.5 million was transferred and reinvested in equity securities across the L&I Funds. In addition, the Real Estate program was funded for the first time in the current fiscal year, and $12.6 million was transferred from the fixed income portfolio to invest in the newly operational Real Estate program. The net investment position and performance of debt securities included $471.9 million of cash balances used for trading purposes.

  Despite the declining interest rate environment, interest income on fixed income securities increased by $2.6 million from the previous fiscal year. The average coupon rate at June 30, 2020, ranged from 3.0 to 3.5 percent for the Accident Fund, Medical Aid Fund, and Pension Reserves Fund. This was a slight decrease from the prior year average coupon rates, which ranged from 3.1 to 3.7 percent. The increase in interest income can be attributed to the increases in the fixed income invested balances.

Performance for the L&I fixed income portfolios for the fiscal year ended June 30, 2020, was 10.8 percent, which outperformed their Comparable Market Indices (CMI) across each L&I Fund. The CMI benchmark returns for each individual fund ranged from 7.5 to 10.2 percent. Individual funds' one-year debt returns were 170 to 254 basis points above their respective CMI benchmarks. The longer maturity profile in comparison to the CMI, coupled with security selection and asset allocation between industries and sectors, contributed to the positive returns. An additional factor driving increased returns in the debt portfolio was a declining interest rate environment, which drove up the prices for both U.S. Treasuries and credit bonds this year. The large increase in returns in the debt portfolio over the previous year increased realized and unrealized gains by $343.1 million year over year.

The fiscal year began with the global economy in a continued slowdown. The U.S. Federal Reserve (FED) eased interest rates three times during the first half of the fiscal year by a combined total of 75 basis points. With easing monetary policy in both the U.S. and Europe, economic activity picked up steam in the second quarter of Fiscal Year 2020. Positive employment numbers were reported and trade tensions with China eased as phase one of a new trade agreement was signed. The United Kingdom (U.K.) finally agreed on a Brexit strategy, which helped ease equity market tensions. With several distractions seemingly addressed, global equity markets experienced excellent returns during the second quarter of the fiscal year.

The third quarter of fiscal year through mid-February continued to perform well, with global investors reacting positively to the massive economic stimulus in the system, robust employment numbers, and positive calendar year fourth quarter 2019 corporate earnings. The S&P 500 Index reached an all-time high on February 19, 2020. During the last few weeks in February, the focus of global investors turned to the coronavirus (COVID-19) outbreak. The fears of the economic impact of a global pandemic, both in the near and long term, sent developed countries' government bond yields lower and equity markets tumbling. Global equity markets continued to fall sharply, with the majority of the decline occurring in March.

Corporate credit spreads widened dramatically during the third quarter of the fiscal year, paralleling the drop in global equity markets. The Bloomberg Barclays U.S. Corporate High Yield Index credit spreads widened an astonishing 544 basis points, ending the quarter at 880 basis points. Investment Grade bonds performed better by widening 179 basis points, ending the quarter at 272 basis points. Corporate credit spreads widened to levels not seen since May 2009, where record highs were set during the Global Financial Crisis. Faced with an extraordinary economic shutdown, the U.S. Federal Reserve lowered the federal funds rate by 150 basis points in March to 0.25 percent.

Early in the fourth quarter of the fiscal year, the U.S. Federal Reserve restarted and expanded asset purchase programs, stating they would purchase as many government bonds as necessary to stabilize the liquidity of the government bond market. In addition, a credit purchase program was implemented to provide financial assistance to corporate borrowers. The U.S. Congress approved a record stimulus package, including extended jobless benefits, along with small business loans. The stimulus package was estimated to be worth roughly 10 percent of Gross Domestic Product (GDP). Later in the fourth quarter of the fiscal year, the Fed announced they would buy investment grade and high yield bonds along with exchange traded funds (ETFs). These announcements led to large rallies in both high yield and investment grade bonds. The Fed voted unanimously to keep the Fed Funds target rate unchanged in the 0 percent to 0.25 percent range. Credit spreads rallied along with global equity markets in response to these events.

As economies started to reopen following the closures caused by the COVID-19 pandemic, economic data showed signs of a sharp rebound. The Fiscal Year 2020 ended with a very strong quarter for global equities and credit markets, as central banks and governments continued to provide enormous amounts of stimulus. High yield spreads narrowed 254 basis points, to end the fiscal year at 626 basis points, while investment grade spreads narrowed 122 basis points, to end at 150 basis points. With interest rates unchanged and credit spreads narrower, there was a wide dispersion of returns between various sectors in fixed income. The 10-year U.S. Treasury rate declined a total of 135 basis points during Fiscal Year 2020, with the majority of decline occurring in March.

- ***Equity securities*** net investment position increased by $538.7 million from the prior fiscal year. Net realized and unrealized gains increased the net investment position of equity securities by $168.5 million. For the fiscal year ended June 30, 2020, the equity portfolio returned 1.5 percent, compared to the prior fiscal year return of 5.1 percent. While the overall equity returns decreased, net realized and unrealized gains increased over the previous fiscal year by $48.2 million as a result of the timing of rebalancing trades within the portfolio. In March 2020, $370.5 million of debt security sale proceeds were reinvested in equity securities during a time of unprecedented market declines. By the end of the fiscal year, the markets had recovered significantly, ending the year in positive territory. The equity portfolio is passively managed and is structured to closely track the performance of its global benchmark, MSCI All Country World IMI with U.S. Gross Index, which returned 1.5 percent and is consistent with the returns achieved in the L&I equity portfolio.

  In the third quarter of Fiscal Year 2020, equity markets collapsed and volatility surged amid heightened anxieties around the coronavirus pandemic and its impact on the global economy. The sell-off, which began in late February, continued through March as governments around the world ordered citizens to shelter in place and businesses to remain shuttered. At their nadir, global equity markets traded 30+ percent off of their highs from the start of the year, before ending the quarter down 22 percent. In the U.S., the longest bull run in history came to an end after posting the worst quarterly loss since 2008 (down 21 percent). Countries responded to the crisis by unveiling massive stimulus programs in efforts to prop up flagging economies and prevent large scale business failures. The sheer size of the fiscal and monetary responses dwarfed even that which was undertaken in 2008 during the Global Financial Crisis. In the last quarter of the fiscal year, optimism over phased re-openings of select economies and the aggressive stimulus measures stimulated the equity markets to recover some lost ground, ending the year with modestly positive returns. Despite strong near-term performance in fixed income, global equity markets continued to offer attractive returns over the long-term, outperforming the fixed income benchmark over a 10-year period, albeit with much higher volatility.

- ***Alternative Assets*** were funded for the first time in the current fiscal year. The L&I real estate program remains in its early stages and has investments thus far consisting entirely of European residential properties. The L&I Funds invested $12.6 million in the real estate program during the current fiscal year.

Securities on Loan and Collateral Held Under Securities Lending Agreements: During the current fiscal year, the WSIB decided, after a thorough review, to discontinue lending of U.S. Treasuries in all fixed income portfolios. The new securities lending policy is effective July 1, 2020. The WSIB coordinated with their securities lending agent during the spring and early summer of 2020 to raise liquidity in the cash collateral pool. All U.S. Treasuries were returned from borrowers by June 30, 2020, and there were no securities on loan or cash collateral held under securities lending agreements as of fiscal year end.

Labor and Industries' Funds Statement of Net Investment Position - June 30, 2020

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	$ 194,167,160	$ 159,625,956	$ 70,753,707	$ 47,356,876	$ 471,903,699	2.3%
DEBT SECURITIES						
Mortgage and Other Asset Backed Securities	402,850,023	304,991,296	348,128,218	-	1,055,969,537	
Corporate Bonds	3,816,205,549	3,632,135,346	3,662,070,811	13,414,500	11,123,826,206	
U.S. Government and Agency Securities	1,089,680,860	886,426,564	944,402,734	85,315,508	3,005,825,666	
Foreign Government and Agency Securities	459,581,650	503,909,710	330,712,783	4,256,910	1,298,461,053	
Total Debt Securities	5,768,318,082	5,327,462,916	5,285,314,546	102,986,918	16,484,082,462	81.1%
EQUITY SECURITIES						
Commingled Investment Trusts	1,205,548,681	1,487,244,982	655,072,712	-	3,347,866,375	
Total Equity Securities	1,205,548,681	1,487,244,982	655,072,712	-	3,347,866,375	16.5%
ALTERNATIVE INVESTMENTS						
Real Estate	4,483,304	4,022,554	3,090,664	-	11,596,522	
Total Alternative Investments	4,483,304	4,022,554	3,090,664	-	11,596,522	0.1%
Total Investments	7,172,517,227	6,978,356,408	6,014,231,629	150,343,794	20,315,449,058	100.0%
Investment Earnings Receivable	42,157,741	35,220,938	38,028,578	425,728	115,832,985	
Total Assets	7,214,674,968	7,013,577,346	6,052,260,207	150,769,522	20,431,282,043	
LIABILITIES						
Accounts Payable	15,088,411	34,098,479	10,046,396	1,011,052	60,244,338	
Total Liabilities	15,088,411	34,098,479	10,046,396	1,011,052	60,244,338	
NET INVESTMENT POSITION	$ 7,199,586,557	$ 6,979,478,867	$ 6,042,213,811	$ 149,758,470	$ 20,371,037,705	

Labor and Industries' Funds Statement of Changes in Net Investment Position - Year Ended June 30, 2020

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	$ 185,086,092	$ 155,806,922	$ 164,997,132	$ 2,951,417	$ 508,841,563
Net Realized Capital Gains (Losses)	133,990,012	72,808,898	69,432,285	276,680	276,507,875
Unrealized Gains	341,232,693	318,584,588	399,429,726	2,216,767	1,061,463,774
Less:					
Investment Expenses	(2,421,674)	(2,410,217)	(1,513,545)	(183,890)	(6,529,326)
WSIB Operating Expenses	(1,398,475)	(1,322,406)	(1,106,957)	(31,591)	(3,859,429)
Net Investment Income	656,488,648	543,467,785	631,238,641	5,229,383	1,836,424,457
Equity Transfer	(629,337,000)	-	629,337,000	-	-
Net Amount Contributed (Withdrawn)	94,839,475	13,389,406	(151,999,043)	15,901,591	(27,868,571)
Increase in Net Investment Position	121,991,123	556,857,191	1,108,576,598	21,130,974	1,808,555,886
Net Investment Position - June 30, 2019	7,077,595,434	6,422,621,676	4,933,637,213	128,627,496	18,562,481,819
Net Investment Position - June 30, 2020	$ 7,199,586,557	$ 6,979,478,867	$ 6,042,213,811	$ 149,758,470	$ 20,371,037,705

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 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 and are comprised of short-term investment funds which are valued at cost. Accordingly, these investments are excluded from the fair value schedule to the basic financial statements found in Note 6.

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 on a monthly basis. Unrealized gains and losses are included as investment income in the Statement of Changes in Net Investment Position. See Note 6 for additional information.

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. Securities lending income received by the L&I Funds during Fiscal Year 2020 was $4.1 million. Securities lending expenses during the fiscal year totaled $3.2 million.

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.

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 Funds' investments. These fees include investment management fees and commissions, investment consultant fees, legal fees, and other investment management related expenses. The WSIB's operating expenses are charged to the funds based upon actual costs incurred to manage the investments. The WSIB's 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, 2020, 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. This 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, 2020, 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, 2020. 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, 2020, 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 L&I Funds' fair value at the time of purchase, nor shall its fair value exceed 6 percent of the L&I Funds' fair value at any time. There was no concentration of credit risk as of June 30, 2020.

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, 2020, consisted of $1.4 billion (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 the 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.

Debt securities were loaned during the fiscal year 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. As of June 30, 2020, the L&I Funds had no securities on loan and, accordingly, no collateral was held.

During Fiscal Year 2020, securities lending transactions could be terminated on demand by either L&I Funds or the borrower. 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 during the current fiscal year, 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 2020, 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 2020 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 their 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, 2020, the only derivative securities held directly by the L&I Funds were collateralized mortgage obligations of $532.8 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 default 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 and Financial Services unit of the WSIB, which regularly monitors fair value measurements. Fair value measurements are prepared and reviewed monthly. 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 fixed income 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 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. WSIB staff review these reports monthly and verify the information to the appropriate source.

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 issue or reduce shares for contributions and redemptions from the funds. 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, 2020:

		Fair Value Measurements Using:		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
INVESTMENTS				
DEBT SECURITIES				
Mortgage and Other Asset Backed Securities	$ 1,055,969,537	$ -	$ 1,055,969,537	$ -
Corporate Bonds	11,123,826,206	-	11,123,826,206	-
U.S. and Foreign Government and Agency Securities	4,304,286,719	-	4,304,286,719	-
Total Debt Securities	16,484,082,462	-	16,484,082,462	-
Total Investments By Fair Value Level	$ 16,484,082,462	$ -	$ 16,484,082,462	$ -
INVESTMENTS MEASURED AT NET ASSET VALUE				
Commingled Equity Investment Trusts	3,347,866,375			
Real Estate	11,596,522			
Total Investments Measured at Fair Value	$ 19,843,545,359			

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 in to 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 a single Collective Investment Trust Fund (Fund). The Fund is passively managed to track the investment return of a broad, global equity index, the Morgan Stanley Capital International All Country World Investible Market Index Net with U.S. Gross (MSCI ACWI IMI net with U.S. Gross). The 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 underlying holdings within each fund are publicly traded equity securities.

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.

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 has been determined by using the net asset value per share (or its equivalent) of the L&I 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 $11.6 million (0.1 percent of total investments) as of June 30, 2020. Because of the inherent uncertainties in estimating fair values, it is possible these estimates will change in the near-term or the subsequent sale of assets would be different than the June 30, 2020, reported net asset value.

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 investments will be held for at least 10 years or longer.

Real Estate

This includes one real estate investment. Targeted investment structures within the L&I real estate portfolio include limited liability companies, limited partnerships, joint ventures, commingled funds, and co-investments.

Real estate partnerships generally provide quarterly valuations based on the most recent capital account balance. 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 at least once every five years, depending upon the investment. Annual audits of most partnerships include a review of compliance with the partnership's valuation policies.

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. Subject to this purpose, these portfolios seek to 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 of the L&I Funds. Market conditions, funding status, and liability assumptions are dynamic. Therefore, WSIB staff meet quarterly with L&I staff to review the investment portfolios.

The Board has delegated authority to the Executive Director 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, rebalancing transactions 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 seven years or more, given the 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. The long-term strategic asset allocation target for real estate is 5 percent in all funds, excluding the Supplemental Pension Fund, which has no allocation to this asset class.

	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%

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 U.S. Gross (MSCI ACWI IMI net with U.S. 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.

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.

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.

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, those differences should not be material over any extended period of time.

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.

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 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.

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%

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.

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	$ 1,055,969,537	$ 34,367,797	$ 764,999,148	$ 256,602,592	$ -	3.5	Aaa
Corporate Bonds	11,123,826,206	809,435,220	4,633,156,362	2,459,080,378	3,222,154,246	7.4	Schedule 2
U.S. Government and Agency Securities	3,005,825,666	101,044,921	745,726,838	1,046,698,438	1,112,355,469	11.1	Aaa
Foreign Government and Agencies	1,298,461,053	144,757,250	668,748,403	391,338,100	93,617,300	5.0	Schedule 2
	16,484,082,462	$ 1,089,605,188	$ 6,812,630,751	$ 4,153,719,508	$ 4,428,127,015	7.6	

Investments Not Required to be Categorized	
Commingled Investment Trusts	3,347,866,375
Cash and Cash Equivalents	471,903,699
Real Estate	11,596,522
Total Investments Not Categorized	3,831,366,596
Total L&I Funds Investments	$ 20,315,449,058

* Excludes cash and cash equivalents

Schedule 2: Additional Credit Ratings Disclosure

Moody's Equivalent Credit Rating	Corporate Bonds	Foreign Government and Agencies
Aaa	$ 494,857,491	$ 192,250,760
Aa1	172,648,450	236,840,550
Aa2	327,288,750	191,313,850
Aa3	725,821,439	277,290,810
A1	1,639,930,770	278,090,100
A2	2,190,489,603	-
A3	1,974,979,400	-
Baa1	1,601,695,527	-
Baa2	1,466,673,423	92,967,783
Baa3	364,925,005	29,707,200
Ba1 or Lower	164,516,348	-
Total	$ 11,123,826,206	$ 1,298,461,053

Schedule 3: Foreign Currency Exposure

Foreign Currency Denomination	Equity Securities	Percent of Total Investments
AUSTRALIAN DOLLAR	$ 65,881,641	0.3%
BRAZILIAN REAL	21,577,518	0.1%
CANADIAN DOLLAR	93,089,091	0.5%
SWISS FRANC	90,843,476	0.4%
YUAN RENMINBI	17,030,353	0.1%
DANISH KRONE	21,333,645	0.1%
EURO CURRENCY	286,790,431	1.3%
POUND STERLING	136,811,849	0.7%
HONG KONG DOLLAR	117,482,615	0.6%
INDIAN RUPEE	33,271,282	0.2%
JAPANESE YEN	247,018,386	1.2%
SOUTH KOREAN WON	48,325,044	0.2%
SWEDISH KRONA	33,647,060	0.2%
NEW TAIWAN DOLLAR	53,772,701	0.3%
OTHER (MISC)	112,677,750	0.6%
Total Foreign Currency Exposure	$ 1,379,552,842	6.8%

CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Members of the Washington State Investment Board

Olympia, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Labor and Industries' Funds as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Labor and Industries' Funds' financial statements, and have issued our report thereon dated September 25, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Labor and Industries' Funds' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Labor and Industries' Funds' internal control. Accordingly, we do not express an opinion on the effectiveness of the Labor and Industries' Funds' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Labor and Industries’ Funds’ financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

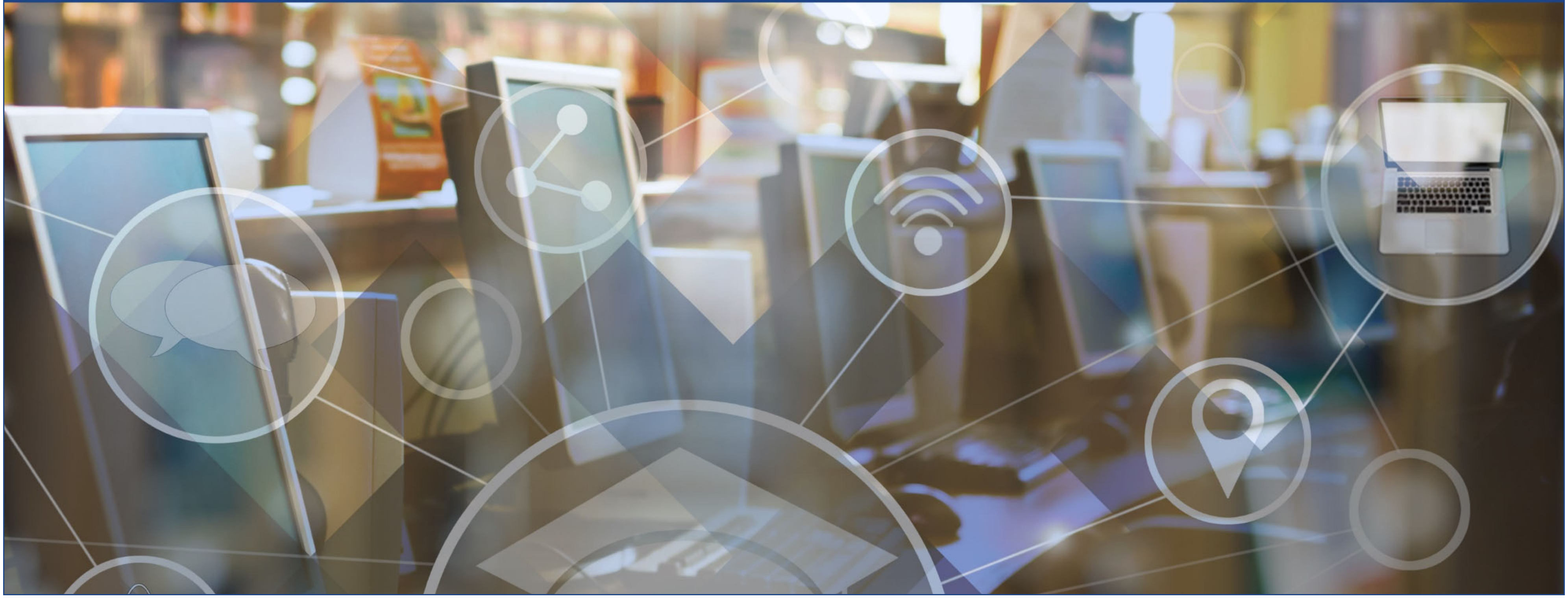
Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Labor and Industries’ Funds’ internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Labor and Industries’ Funds’ internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Boise, Idaho
September 25, 2020

PERMANENT 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 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, 2020, 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.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net investment position of the Permanent Funds as of June 30, 2020, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2020 on our consideration of the Permanent Funds' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Permanent Funds' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Permanent Funds' internal control over financial reporting and compliance.

Eide Bailly LLP

Boise, Idaho

September 25, 2020

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, 2020. 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, 2020. The following table compares the net investment position of each major investment classification at June 30, 2020, with those at June 30, 2019. In addition, the table summarizes the changes in each major investment classification for the fiscal year and compares 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 Permanent Funds financial statements.

As shown in the following table, the net investment position of the Permanent Funds increased by $54.1 million during the fiscal year ended June 30, 2020. Net contributions from the Department of Natural Resources (DNR) on behalf of the Permanent Funds during the year increased net investment position by $10.9 million and were mainly invested in fixed income securities. Net investment income increased net investment position by $84.5 million. Distributable investment income (interest, dividends, and other investment income net of investment expenses) of $41.3 million was distributed to the state colleges and universities pursuant to state laws, which decreased net investment position. 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 are invested in commingled investment funds managed by the WSIB.

Net investment income increased by $4.7 million during the current fiscal year as compared to the prior year for the following reasons:

- Interest, dividends, and other investment income net of expenses increased by $7.9 million over the prior fiscal year and is derived from the distributable investment income within each commingled investment fund. Distributable investment income of the underlying holdings includes interest, dividends, and realized gains and losses. The sale of securities throughout the fiscal year generated $9.4 million in distributable capital gains, an increase of $8.5 million over the previous fiscal year. The majority of the capital gains were realized in April 2020, when fixed income securities were sold and subsequently reinvested in equity securities in order to rebalance the portfolio to strategic investment targets. Distributable interest earnings net of expenses within the Commingled Monthly Equity Fund (CMEF) decreased by $1.5 million in the current fiscal year. The decrease was due to a decrease of 40 basis points in the dividend yield which was 2.8 percent as of June 30, 2020. Although the average coupon rates in the Commingled Monthly Bond Fund (CMBF) decreased slightly this fiscal year from 3.1 to 3.0 percent, distributable interest earnings net of expenses within the CMBF increased by $0.9 million due to a 2.3 percent increase in fixed income invested balances.

- The net realized and unrealized gains decreased by $3.2 million as a result of decreased investment returns in the equity portfolio. The significant increase in debt returns was offset by the equally significant decrease in equity returns. The fixed income portfolio, which represents 68 percent of invested balances at year end, returned 10.1 percent in the current year, as compared to the prior year return of 7.8 percent. The CMEF portfolio returned 1.0 percent in the current fiscal year, compared to 7.0 percent in the previous fiscal year, which offset some of the large increases in gains from the fixed income portfolio. As a result, the total return of the Perm Funds remained unchanged from the previous year.

Net contributions from DNR decreased by $4.6 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 for the WSIB to invest in securities.

Distributions to the beneficiary funds increased by $7.9 million and are directly correlated to the interest, dividend, and other investment income reported in the financial statements. Certain investment income is distributed to the beneficiaries and is based on the distributable earnings within each commingled fund. Distributable earnings include cash basis interest, dividends, realized gains, and are net of fund expenses and realized losses. There are timing issues between the income reported and the income distributed to the beneficiaries for various accounting related accruals. The large increase in distributions from the prior year was mainly the result of increased realized gains realized in the CMBF portfolio as discussed earlier.

Summarized Change in Net Investment Position and Returns by Asset Class

	Fiscal Year End June 30, 2020				Fiscal Year End June 30, 2019				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 (*)	$ 821,381	$ 782,435,339	$ 342,177,496	$ 1,125,434,216	$ 1,961,479	$ 733,338,457	$ 328,204,223	$ 1,063,504,159	$ 61,930,057	5.8%
Investment Income:										
Interest, Dividends, and Other Investment Income	7,338	31,454,529	10,081,762	41,543,629	16,073	21,841,386	11,763,549	33,621,008	7,922,621	23.6%
Realized and Unrealized Gains (Losses)	-	46,791,882	(3,596,391)	43,195,491	-	35,235,314	11,196,593	46,431,907	(3,236,416)	-7.0%
Less: Investment Expenses	(1,070)	(158,981)	(72,311)	(232,362)	(1,496)	(138,036)	(61,050)	(200,582)	31,780	15.8%
Net Investment Income	6,268	78,087,430	6,413,060	84,506,758	14,577	56,938,664	22,899,092	79,852,333	4,654,425	5.8%
Net Amount Contributed	10,919,822	-	-	10,919,822	15,500,000	-	-	15,500,000	(4,580,178)	-29.5%
Withdrawals and Distributions	(15,813)	(31,283,141)	(10,010,025)	(41,308,979)	(21,842)	(21,697,935)	(11,702,499)	(33,422,276)	7,886,703	23.6%
Transfers Between Asset Classes	(11,268,522)	(28,772,351)	40,040,873	-	(16,632,833)	13,856,153	2,776,680	-	-	NA
Ending Net Investment Position (*)	**$ 463,136**	**$ 800,467,277**	**$ 378,621,404**	**$ 1,179,551,817**	**$ 821,381**	**$ 782,435,339**	**$ 342,177,496**	**$ 1,125,434,216**	**$ 54,117,601**	**4.8%**

Increase (Decrease) in Net Investment Position	**$ (358,245)**	**$ 18,031,938**	**$ 36,443,908**	**$ 54,117,601**
Percent Change in Net Investment Position	**-43.6%**	**2.3%**	**10.7%**	**4.8%**
One Year Time Weighted Return - June 30, 2020	**1.4%**	**10.1%**	**1.0%**	**7.6%**
One Year Time Weighted Return - June 30, 2019	**2.1%**	**7.8%**	**7.0%**	**7.6%**

(*) 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 $0.4 million. This cash balance represents less than 1.0 percent of total invested balances and is within policy ranges set by the WSIB. 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, distributions made to beneficiaries, and the reinvestment to other asset classes. Cash returns for the one-year period ended June 30, 2020, decreased over the prior fiscal year to 1.4 percent, resulting in a decrease in interest income over the prior year. Short-term rates moved considerably lower over the fiscal year as a result of U.S. Federal Reserve (Fed) actions. The Fed decreased the target range for fed funds by 225 basis points during the fiscal year. The Net Investment Position of Cash and Cash Equivalents include accrued income and accrued expenses.

- ***Debt securities*** net investment position increased by $18.0 million. Net realized and unrealized gains for the fiscal year were $46.8 million, which increased fixed income invested balances. Contributions received were initially invested in cash and subsequently transferred and reinvested in debt and equity securities. To maintain target allocations throughout the fiscal year, fixed income securities were sold in April 2020 and the proceeds of $37.0 million were reinvested in equity securities. In the current fiscal year, $8.2 million of contributions received from DNR were invested in the fixed income portfolio, with the remainder was invested in equity securities. Interest, dividends, and other investment income net of investment expenses of $31.3 million was received by the fund and subsequently distributed to the beneficiary funds.

  The debt securities held within the Permanent Funds are invested in the CMBF managed by the WSIB. Performance of the CMBF was 10.1 percent in the current fiscal year, which is significantly higher than the previous year return of 7.8 percent. The current year performance exceeded the return of its benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index, of 8.7 percent. The higher return was due to a combination of a longer maturity profile of the portfolio versus its benchmark, security selection, and asset allocation.

  The fiscal year began with the global economy in a continued slowdown. The U.S. Federal Reserve eased interest rates three times during the first half of the fiscal year by a combined total of basis points. With easing monetary policy in both the U.S. and Europe, economic activity picked up steam in the second quarter of Fiscal Year 2020. Positive employment numbers were reported and trade tensions with China eased as phase one of a new trade agreement was signed. The United Kingdom (U.K.) finally agreed on a Brexit strategy, which helped ease equity market tensions. With several distractions seemingly addressed, global equity markets experienced excellent returns during the second quarter of the fiscal year.

  The third quarter of fiscal year through mid-February continued to perform well, with global investors reacting positively to the massive economic stimulus in the system, robust employment numbers, and positive calendar year fourth quarter 2019 corporate earnings. The S&P 500 Index reached an all-time high on February 19, 2020. During the last few weeks in February, the focus of global investors turned to the coronavirus (COVID-19) outbreak. The fears of the economic impact of a global pandemic, both in the near and long term, sent developed countries' government bond yields lower and equity markets tumbling. Global equity markets continued to fall sharply, with the majority of the decline occurring in March.

  Corporate credit spreads widened dramatically during the third quarter of the fiscal year, paralleling the drop in global equity markets. The Bloomberg Barclays U.S. Corporate High Yield Index credit spreads widened an astonishing 544 basis points ending the quarter at 880 basis points. Investment Grade bonds performed better by widening 179 basis points ending the quarter at 272 basis points. Corporate credit spreads widened to levels not seen since May 2009, where record highs were set during the Global Financial Crisis. Faced with an extraordinary economic shutdown, the U.S. Federal Reserve lowered the federal funds rate by 150 basis points in March to 0.25 percent.

Early in the fourth quarter of the fiscal year, the U.S. Federal Reserve restarted and expanded asset purchase programs, stating they would purchase as many government bonds as necessary to stabilize the liquidity of the government bond market. In addition, a credit purchase program was implemented to provide financial assistance to corporate borrowers. The U.S. Congress approved a record stimulus package, including extended jobless benefits along with small business loans. The stimulus package was estimated to be worth roughly 10 percent of Gross Domestic Product (GDP). Later in the fourth quarter of the fiscal year, the Fed announced they would buy investment grade and high yield bonds along with exchange traded funds (ETFs). These announcements led to large rallies in both high yield and investment grade bonds. The Fed voted unanimously to keep the Fed Funds target rate unchanged in the 0 percent to 0.25 percent range. Credit spreads rallied along with global equity markets in response to these events.

As economies started to reopen following the closures caused by the COVID-19 pandemic, economic data showed signs of a sharp rebound. The Fiscal Year 2020 ended with a very strong quarter for global equities and credit markets, as central banks and governments continued to provide enormous amounts of stimulus. High yield spreads narrowed 254 basis points to end the fiscal year at 626 basis points, while investment grade spreads narrowed 122 basis points to end at 150 basis points. With interest rates unchanged and credit spreads narrower, there was a wide dispersion of returns between various sectors in fixed income. The 10-year U.S. Treasury rate declined a total of 135 basis points during Fiscal Year 2020, with the majority of decline occurring in March.

- ***Equity securities*** net investment position increased by $36.4 million. Interest, dividends, and other investment income net of investment expenses of $10.0 million was received by the CMEF and subsequently distributed to the beneficiary funds. Contributions of $3.0 million were initially invested in cash and subsequently reinvested in equity securities, which also increased the net investment position. To maintain strategic asset allocation targets throughout the fiscal year, $37.0 million was liquidated from the debt portfolio and the proceeds were reinvested in equity securities in May 2020.

The Commingled Monthly Equity Fund is invested in a combination of U.S. equity and non-U.S. securities, which, over the long term, have provided inflation protection. The strategy aims to earn an above-average dividend yield to support distributions to the beneficiary funds, as seen by the portfolio's trailing 12-month dividend yield of 2.8 percent. The total portfolio returned 1.0 percent during the fiscal year, which underperformed its custom global developed-markets benchmark return of 2.6 percent. From an attribution perspective, the positive contribution from an overweight to technology stocks in the portfolio was offset by the weak performance of higher yielding stocks during the period.

In the third quarter of Fiscal Year 2020, equity markets collapsed and volatility surged amid heightened anxieties around the coronavirus pandemic and its impact on the global economy. The sell-off which began in late February, continued through March as governments around the world ordered citizens to shelter in place and businesses to remain shuttered. At their nadir, global equity markets traded 30+ percent off of their highs from the start of the year, before ending the quarter down 22 percent. In the U.S., the longest bull run in history came to an end after posting the worst quarterly loss since 2008 (down 21 percent). Countries responded to the crisis by unveiling massive stimulus programs in efforts to prop up flagging economies and prevent large scale business failures. The sheer size of the fiscal and monetary responses dwarfed even that which was undertaken in 2008 during the Global Financial Crisis. In the last quarter of the fiscal year, optimism over phased re-openings of select economies and the aggressive stimulus measures stimulated the equity markets to recover some lost ground, ending the year with modestly positive returns. Despite strong near-term performance in fixed income, global equity markets continued to offer attractive returns over the long-term, outperforming the fixed income benchmark over a 10-year period, albeit with much higher volatility.

The returns of the various capital markets, within which the WSIB invests, directly impacted the fair value of the Permanent Funds' net investment position. These 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, 2020

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	$ 25,082	$ 26,143	$ 66,402	$ 39,130	$ 297,368	$ 9,042	$ 463,167	0.0%
Commingled Monthly Bond Fund	355,402	185,047,289	213,713,159	165,052,255	208,067,009	28,232,632	800,467,746	67.9%
Commingled Monthly Equity Fund	-	87,429,279	101,260,562	78,137,004	98,438,378	13,356,272	378,621,495	32.1%
Total Investments	380,484	272,502,711	315,040,123	243,228,389	306,802,755	41,597,946	1,179,552,408	100.0%
Investment Earnings Receivable	1,019	829,609	959,122	740,503	933,299	126,634	3,590,186	
Total Assets	381,503	273,332,320	315,999,245	243,968,892	307,736,054	41,724,580	1,183,142,594	
LIABILITIES								
Distributions and Other Payables	1,019	829,710	959,226	740,688	933,406	126,728	3,590,777	
NET INVESTMENT POSITION	$ 380,484	$ 272,502,610	$ 315,040,019	$ 243,228,204	$ 306,802,648	$ 41,597,852	$ 1,179,551,817	

Permanent Funds Statement of Changes in Net Investment Position - Year Ended June 30, 2020

See notes to financial statements

	American Indian Scholarship Endowment	Agricultural School	Normal School	Common School	Scientific School	State University	Total
Net Investment Income							
Investment Income:							
Interest, Dividends and Other Investment Income	$ 13,908	$ 9,585,303	$ 11,097,117	$ 8,592,999	$ 10,783,930	$ 1,470,372	$ 41,543,629
Net Realized Capital Gains	-	772,850	851,920	661,250	853,444	113,038	3,252,502
Unrealized Gains	19,916	9,178,759	10,652,815	8,173,974	10,510,222	1,407,303	39,942,989
Less:							
Investment Expenses	(43)	(923)	(808)	(549)	(831)	(103)	(3,257)
WSIB Operating Expenses	(74)	(52,767)	(61,223)	(47,449)	(59,470)	(8,122)	(229,105)
Net Investment Income	33,707	19,483,222	22,539,821	17,380,225	22,087,295	2,982,488	84,506,758
Other Changes in Net Investment Position							
Contributions	-	5,249,000	2,251,000	729,822	2,651,000	39,000	10,919,822
Withdrawals and Distributions	(10,704)	(9,531,932)	(11,035,291)	(8,545,029)	(10,723,828)	(1,462,195)	(41,308,979)
Increase in Net Investment Position	23,003	15,200,290	13,755,530	9,565,018	14,014,467	1,559,293	54,117,601
Net Investment Position - June 30, 2019	357,481	257,302,320	301,284,489	233,663,186	292,788,181	40,038,559	1,125,434,216
Net Investment Position - June 30, 2020	$ 380,484	$ 272,502,610	$ 315,040,019	$ 243,228,204	$ 306,802,648	$ 41,597,852	$ 1,179,551,817

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 Permanent Fund, Normal School Permanent Fund, Permanent Common School Fund, Scientific Permanent Fund, and State University Permanent 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. The AIS Endowment Fund 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. The equity investments held by the Permanent Funds are commingled into one fund called the Commingled Monthly Equity Fund. 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 to the basic financial statements found in Note 6.

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 hold the underlying securities and participate in lending activities. Each Permanent Fund owns a proportionate interest 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 2020 was $679,068. Securities lending expenses during the fiscal year totaled $473,700.

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’s operating expenses are charged to the funds based upon actual costs incurred to manage the investments. The WSIB’s 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, 2020, 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. This 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 of securities held to be targeted within plus or minus 20 percent of the duration of the portfolio's benchmark, which is the Bloomberg Barclays U.S. Aggregate Bond Index. Increases in prevailing interest rates generally translate into decreases in fair values of those investments, and vice versa.

Schedules 1 and 2 provide information about the interest rate risks associated with the CMBF investments, as of June 30, 2020. 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, 2020.

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 securities held by the Permanent Funds with foreign currency exposure at June 30, 2020, consisted of $132.1 million (excludes U.S. dollar denominated securities) invested in the CMEF. Foreign currency exposure for the Permanent Funds are presented in Schedule 4.

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 reports 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, 2020, the fair value of the securities on loan in the CMEF was approximately $9.5 million. The securities on loan are reported in Schedule 3 in their respective categories. At June 30, 2020, cash collateral received totaling $6.4 million was reported as a securities lending obligation, and the fair value of the reinvested cash collateral totaling $6.4 million was reported as security lending collateral in Schedule 3. Securities received as collateral where the Permanent Funds do not have the ability to pledge or sell the collateral, unless the borrower defaults, were not reported as assets and liabilities in Schedule 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, 2020.

In Millions:	Cash Collateral	Non-Cash Collateral	Total
Repurchase Agreements	$ 2.5	-	$ 2.5
Yankee CD	1.8	-	1.8
Commercial Paper	1.6	-	1.6
U.S. Treasuries	-	3.4	3.4
Cash Equivalents and other	0.5	-	0.5
Total Collateral Held	**$ 6.4**	**$ 3.4**	**$ 9.8**

During Fiscal Year 2020, securities lending transactions could be terminated on demand by either the Permanent Funds or the borrower. As of June 30, 2020, the collateral held had an average duration of 10.28 days and an average weighted final maturity of 33.11 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 2020, 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. During Fiscal Year 2020, 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, 2020, the only derivative securities held directly by the Permanent Funds' CMBF were collateralized mortgage obligations of $31.7 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 and Financial Services 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, Bloomberg 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 fair value measurements as of June 30, 2020:

INVESTMENTS - PERMANENT FUNDS	Fair Value
INVESTMENTS MEASURED AT NET ASSET VALUE	
Commingled Monthly Bond Fund	$ 800,467,746
Commingled Monthly Equity Fund	378,621,495
Total Investments at Net Asset Value	1,179,089,241
Total Investments Measured at Fair Value	$ 1,179,089,241

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 Morgan Stanley Capital International All Country World Investable Market Index (MSCI ACWI IMI) and the Bloomberg Barclays U.S. Aggregate Bond Index, respectively. With the exception of American Indian Endowment Scholarship Fund (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 Permanent 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 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 states, 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 Bloomberg Barclays 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 Mortgage Backed 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 Permanent Fund, Normal School Permanent Fund, Permanent Common School Fund, Scientific Permanent Fund, and State University Permanent Fund have the following asset allocation policies and benchmarks. The investment policy was changed in 2017 to allow for equity investments in international markets. It is anticipated that the rebalancing of the equity portfolio could take up to five years.

The benchmark for the above funds is a combination of the Bloomberg Barclays U.S. Aggregate Bond Index and the Morgan Stanley Capital International All Country World Investable Market Index (MSCI ACWI IMI) in the weighted percentage allocations that represent the fund's target allocation upon full transition to a global equity strategy.

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

Transition Period of up to 5 years

Asset Class	Target	Range
Unrestricted Fixed Income	70%	66%-100%
U.S. Equity	18%	0%-34%
Non-U.S. Equity	12%	0%-34%

Post-Transition

Asset Class	Target	Range
Unrestricted Fixed Income	70%	66%-100%
Global Equity	30%	0%-34%

Schedule 1: Commingled Monthly Bond Fund 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	$ 84,095,476	$ 242,251	$ 67,263,750	$ 16,589,475	$ -	3.4	Aaa
Corporate Bonds	351,291,448	14,179,760	134,242,783	107,643,800	95,225,105	7.9	Schedule 2
U.S. Government and Agency Securities	310,232,266	55,825,391	132,621,875	35,225,000	86,560,000	7.6	Aaa
Foreign Government and Agency Securities	42,713,500	-	32,338,350	10,375,150	-	4.6	Schedule 2
Total Debt Securities	788,332,690	$ 70,247,402	$ 366,466,758	$ 169,833,425	$ 181,785,105	7.12*	
Investments Not Required to be Categorized:							
Cash and Cash Equivalents	10,191,361						
Investment Earnings Receivable	4,228,128						
Total Commingled Bond Fund Assets	802,752,179						
Distributions and other payables	(2,284,433)						
CMBF Net Investment Position - June 30, 2020	$ 800,467,746						

* Duration excludes cash balances

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

Moody's Credit Rating	Corporate Bonds	Foreign Government and Agency Securities
Aaa	$ 14,329,310	$ 5,445,100
Aa1	-	-
Aa2	10,623,300	5,596,500
Aa3	29,555,020	10,375,150
A1	51,041,000	21,296,750
A2	63,499,350	-
A3	67,591,945	-
Baa1	66,233,273	-
Baa2	33,247,900	-
Baa3	15,170,350	-
Total	$ 351,291,448	$ 42,713,500

Schedule 3: Commingled Monthly Equity Fund Schedule of Net Investment Position

Classification		
Cash and Cash Equivalents	$	2,271,146
Common and Preferred Stock		363,221,852
Real Estate Investment Trusts		13,601,372
Depository Receipts and Other Miscellaneous		171,438
Total Investments		379,265,808
Income and Other Receivables		719,470
Collateral Held Under Securities Lending Agreements		6,399,917
Distributions and Other Payables		(1,363,783)
Obligations Under Securities Lending Agreements		(6,399,917)
CMEF Net Investment Position June 30, 2020	**$**	**378,621,495**

Schedule 4: Commingled Monthly Equity Fund Schedule of Foreign Currency

Foreign Currency Denomination	Investment Type In U.S. Dollar Equivalent: Cash and Cash Equivalents	Equity Securities	Total	Percent of Total CMEF Funds Investments
AUSTRALIAN DOLLAR	$ 19,936	$ 7,804,899	$ 7,824,835	2.1%
CANADIAN DOLLAR	52,971	10,759,519	10,812,490	2.9%
SWISS FRANC	3,312	12,137,081	12,140,393	3.2%
EURO CURRENCY	169,429	35,545,702	35,715,131	9.3%
POUND STERLING	47,436	18,808,775	18,856,211	5.0%
HONG KONG DOLLAR	30,878	3,810,683	3,841,561	1.0%
JAPANESE YEN	252,626	32,675,746	32,928,372	8.7%
SWEDISH KRONA	2,490	3,536,415	3,538,905	0.9%
OTHER (MISC)	18,237	6,424,728	6,442,965	1.7%
Total Foreign Currency Exposure	$ 597,315	$ 131,503,548	$ 132,100,863	34.8%

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Members of the Washington State Investment Board

Olympia, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Permanent Funds as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Permanent Funds' financial statements, and have issued our report thereon dated September 25, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Permanent Funds' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Permanent Funds' internal control. Accordingly, we do not express an opinion on the effectiveness of the Permanent Funds' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Permanent Funds' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Permanent Funds' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Permanent Funds' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Boise, Idaho
September 25, 2020

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GUARANTEED EDUCATION TUITION FUND

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Independent Auditor's Report

To the Members of the Washington State Investment Board

Olympia, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the Guaranteed Education Tuition Fund of the state of Washington as managed by the Washington State Investment Board (the Guaranteed Education Tuition Fund), which comprise the statement of net investment position as of June 30, 2020, 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.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net investment position of the Guaranteed Education Tuition Fund as of June 30, 2020, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2020 on our consideration of the Guaranteed Education Tuition Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Guaranteed Education Tuition Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Guaranteed Education Tuition Fund's internal control over financial reporting and compliance.

Eide Bailly LLP

Boise, Idaho
September 25, 2020

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, 2020. 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, 2020. The following table compares the net investment position of each major investment classification at June 30, 2020, with those at June 30, 2019. In addition, they summarize the changes in each major investment classification for the fiscal year ended June 30, 2020 and 2019, 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 by $102.9 million during the fiscal year ended June 30, 2020. Net contributions by the GET Fund participants during the year increased net investment position by $3.5 million. The net investment income of $99.3 million increased the net investment position and was reinvested within the various asset classes.

Net investment income was $18.5 million higher than the previous fiscal year, mainly from increases in realized and unrealized gains of $24.9 million. The current fiscal year return for the GET Fund was 7.4 percent, compared to the prior fiscal year return of 5.3 percent. The overall return increased by 210 basis points over the prior year, which contributed to the increase in the net market related gains. This increase in market gains was offset by decreases of $7.6 million in other net investment income mainly from decreases in certain invested balances. Cash and equity balances decreased by 48.1 and 28.1 percent, respectively, during the current fiscal year. The decreases in these invested balances resulted in a corresponding reduction in interest and dividend income in the current fiscal year.

As a result of a strategic asset allocation study, the WSIB increased fixed income allocation targets by 20 percent, with a corresponding decrease to equity securities in the GET Fund. The policy changes considered the fund's current funded status and reserve features, which tilt toward long-term solvency, in designing an asset allocation that is expected to meet or exceed the long-term tuition growth and return targets while improving downside investment risk. The GET Fund rebalanced their portfolio in January to meet the newly approved asset allocation targets. Cash balances were also reduced from previous years to approximately 1.4 percent of the total net investment position, which is within policy target ranges. In response to the asset allocation policy change, equity securities with a value of $299.0 million were sold and the proceeds were invested in debt securities in January 2020. While the overall returns of the equity program are lower year over year, the equity markets were approaching market highs during this large rebalancing time period. Securities were sold, locking in substantial realized gains which contributed to the increase in market gains in the equity portfolio over the prior fiscal year despite a decrease in overall equity returns.

During the prior fiscal year, significant withdrawals were made to fund roll over requests to the newly created IRS Section 529 Qualified Tuition Plan. Contribution and withdrawal activity have stabilized and the GET Fund received steady contributions in current fiscal year with a net contribution of $3.5 million. As such, individual contributions or withdrawals are made based on instructions received from individual participants and can fluctuate from year to year.

Summarized Change in Net Investment Position and Returns by Asset Class										
	Fiscal Year End June 30, 2020				Fiscal Year End June 30, 2019				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 (**)	$ 39,120,799	$ 532,988,214	$ 782,599,914	$ 1,354,708,927	$ 919,762,871	$ 472,366,336	$ 702,817,844	$ 2,094,947,051	$ (740,238,124)	-35.3%
Investment Income:										
Interest, Dividends, and Other Investment Income	269,670	93	16,207,006	16,476,769	4,356,551	-	19,100,603	23,457,154	(6,980,385)	-29.8%
Realized and Unrealized Gains (Losses)	-	53,422,296	30,329,984	83,752,280	-	40,621,878	18,193,991	58,815,869	24,936,411	42.4%
Less: Investment Expenses	(311,331)	(17,145)	(573,385)	(901,861)	(701,484)	-	(772,285)	(1,473,769)	(571,908)	-38.8%
Net Investment Income (Loss)	(41,661)	53,405,244	45,963,605	99,327,188	3,655,067	40,621,878	36,522,309	80,799,254	18,527,934	22.9%
Net Contribution (Withdrawals)	3,546,236	-	-	3,546,236	(821,037,378)	-	-	(821,037,378)	824,583,614	100.4%
Transfers Between Asset Classes	(22,308,637)	288,017,052	(265,708,415)	-	(63,259,761)	20,000,000	43,259,761	-	-	NA
Ending Net Investment Position (**)	**$ 20,316,737**	**$ 874,410,510**	**$ 562,855,104**	**$ 1,457,582,351**	**$ 39,120,799**	**$ 532,988,214**	**$ 782,599,914**	**$ 1,354,708,927**	**$ 102,873,424**	**7.6%**

	Cash and Cash Equivalents	Debt Securities (*)	Equity Securities (*)	Total
Increase (Decrease) in Net Investment Position	**$ (18,804,062)**	**$ 341,422,296**	**$ (219,744,810)**	**$ 102,873,424**
Percent Change in Net Investment Position	**-48.1%**	**64.1%**	**-28.1%**	**7.6%**

	Cash and Cash Equivalents	Debt Securities (*)	Equity Securities (*)	Total
One Year Time Weighted Return - June 30, 2020	**1.4%**	**7.8%**	**1.2%**	**7.4%**
One Year Time Weighted Return - June 30, 2019	**2.3%**	**8.5%**	**4.9%**	**5.3%**

(*) 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 $18.8 million, mainly from transfers to other asset classes to maintain target allocations. Greater flexibility in liquidity was required in the previous fiscal year to support the roll over to the newly created IRS Section 529 Qualified Tuition Plan. In the current year, cash returned to the normal target asset allocation range of 0 percent to 5 percent. The transfers from cash to the other asset classes of $22.3 million aligned invested balances with strategic target allocations according to investment policy.

  Cash returns for the one-year period ended June 30, 2020, decreased over the prior fiscal year to 1.4 percent. A reduction in these returns, coupled with a decline in invested balances, resulted in a decrease in interest income over the prior year. Short-term rates moved considerably lower over the fiscal year as a result of U.S. Federal Reserve (Fed) actions. The Fed decreased the target range for federal funds by 225 basis points during the fiscal year. The Net Investment Position of Cash and Cash Equivalents included accrued income and accrued expenses. Cash held within the debt and equity security portfolios is excluded from this analysis and balance.

  Debt securities net investment position increased by $341.4 million. A new asset allocation policy was implemented during the current fiscal year. Equity securities were sold and the proceeds were reinvested in debt securities as discussed previously. The remaining increase was the result of net investment income retained and reinvested within the fund.

GET invests in the Daily Valued Bond Fund (Bond Fund), a commingled investment 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 return of the portfolio for the current fiscal year end was 7.8 percent, which was a decrease over the prior fiscal year end return of 8.5 percent. Debt securities outperformed its benchmark, Bloomberg Barclays U.S. Intermediate Credit Index, of 7.0 percent. During the current fiscal year, interest rates fell substantially, causing bond prices to increase, which positively impacted overall bond market returns. Credit spreads widened during the current fiscal year, causing the returns to be slightly lower than the previous year. A combination of factors contributed to the Bond Fund's outperformance of its benchmark, including security selection, industry allocation within credit bonds, and the maturity profile of the fund compared to the benchmark.

The fiscal year began with the global economy in a continued slowdown. The U.S. Federal Reserve eased interest rates three times during the first half of the fiscal year by a combined total of 75 basis points. With easing monetary policy in both the U.S. and Europe, economic activity picked up steam in the second quarter of Fiscal Year 2020. Positive employment numbers were reported and trade tensions with China eased as phase one of a new trade agreement was signed. The United Kingdom (U.K.) finally agreed on a Brexit strategy, which helped ease equity market tensions. With several distractions seemingly addressed, global equity markets experienced excellent returns during the second quarter of the fiscal year.

The third quarter of fiscal year through mid-February continued to perform well, with global investors reacting positively to the massive economic stimulus in the system, robust employment numbers, and positive calendar year fourth quarter 2019 corporate earnings. The S&P 500 Index reached an all-time high on February 19, 2020. During the last few weeks in February, the focus of global investors turned to the coronavirus (COVID-19) outbreak. The fears of the economic impact of a global pandemic, both near and long term, sent developed countries' government bond yields lower and equity markets tumbling. Global equity markets continued to fall sharply, with the majority of the decline occurring in March.

Corporate credit spreads widened dramatically during the third quarter of the fiscal year, paralleling the drop in global equity markets. The Bloomberg Barclays U.S. Corporate High Yield Index credit spreads widened an astonishing 544 basis points, ending the quarter at 880 basis points. Investment Grade bonds performed better by widening 179 basis points, ending the quarter at 272 basis points. Corporate credit spreads widened to levels not seen since May 2009, where record highs were set during the Global Financial Crisis. Faced with an extraordinary economic shutdown, the U.S. Federal Reserve lowered the federal funds rate by 150 basis points in March to 0.25 percent.

Early in the fourth quarter of the fiscal year, the U.S. Federal Reserve restarted and expanded asset purchase programs, stating they would purchase as many government bonds as necessary to stabilize the liquidity of the government market. In addition, a credit purchase program was implemented to provide financial assistance to corporate borrowers. The U.S. Congress approved a record stimulus package, including extended jobless benefits along with small business loans. The stimulus package was estimated to be worth roughly 10 percent of Gross Domestic Product (GDP). Later in the fourth quarter of the fiscal year, the Fed announced they would buy investment grade and high yield bonds along with exchange traded funds (ETFs). These announcements led to large rallies in both high yield and investment grade bonds. The Fed voted unanimously to keep the Fed Funds target rate unchanged in the 0 percent to 0.25 percent range. Credit spreads rallied along with global equity markets in response to these events.

As economies started to reopen following the closures caused by the COVID-19 pandemic, economic data showed signs of a sharp rebound. The Fiscal Year 2020 ended with a very strong quarter for global equities and credit markets as central banks and governments continued to provide enormous amounts of stimulus. High yield spreads narrowed 254 basis points to end the fiscal year at 626 basis points, while investment grade spreads narrowed 122 basis points to end at 150 basis points. With interest rates unchanged and credit spreads narrower, there was a wide dispersion of returns between various sectors in fixed income. The 10-year U.S. Treasury rate declined a total of 135 basis points during Fiscal Year 2020, with the majority of decline occurring in March.

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

- ***Equity securities*** net investment position decreased by $219.7 million. As discussed previously, equity securities were sold and the proceeds were reinvested in fixed income securities. Asset allocation policy changes, coupled with various target allocation rebalancing, resulted in total transfers out of the equity portfolio of $265.7 million. This portfolio decrease was offset by net investment income reinvested in the portfolio of $46.0 million.

  The GET global equity portfolio is passively managed and structured to closely track the performance of its global benchmark. During the current fiscal year, the equity portfolio returned 1.2 percent, while the MSCI All Country World IMI with U.S. Gross Index returned 1.50 percent, which is a broad barometer of overall market returns. The modest underperformance was largely driven by the timing of cashflows related to policy driven rebalancing.

  In the third quarter of Fiscal Year 2020, equity markets collapsed and volatility surged amid heightened anxieties around the coronavirus pandemic and its impact on the global economy. The sell-off which began in late February continued through March as governments around the world ordered citizens to shelter in place and businesses to remain shuttered. At their nadir, global equity markets traded 30+ percent off of their highs from the start of the year, before ending the quarter down 22 percent. In the U.S., the longest bull run in history came to an end after posting the worst quarterly loss since 2008 (down 21 percent). Countries responded to the crisis by unveiling massive stimulus programs in efforts to prop up flagging economies and prevent large scale business failures. The sheer size of the fiscal and monetary responses dwarfed even that which was undertaken in 2008 during the Global Financial Crisis. In the last quarter of the fiscal year, optimism over phased re-openings of select economies and the aggressive stimulus measures stimulated the equity markets to recover some lost ground, ending the year with modestly positive returns. Despite strong near-term performance in fixed income, global equity markets continued to offer attractive returns over the long-term, outperforming the fixed income benchmark over a 10-year period, albeit with much higher volatility.

As shown in the following table, securities on loan decreased by $24.0 million and collateral held under securities lending agreements decreased accordingly. The ongoing geopolitical events, such as the ongoing trade tensions with China, interest rate policies, and Brexit, were completely surpassed by the impact to the global markets due to the COVID-19 pandemic during the third quarter of the fiscal year. Its subsequent ramifications on the global economy and markets have remained the focus for the last quarter of the fiscal year while the Central Banks, including the U.S. Federal Reserve, have been heavily involved in the markets by offering “unlimited” Quantitative Easing (QE)/Liquidity in order to provide consistent market supply and stability. The volatility in the equities market has created investment opportunities for investors in certain market sectors, while others directly impacted by the pandemic continue to remain subdued. The GET lending balances fell significantly due to reduced demand to the specific securities held in the portfolio. The number of securities on loan fell to 237 as of June 30, 2020, which was a 35 percent reduction over the previous 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, 2020	June 30, 2019	Increase (Decrease)	Percent Change
Securities on Loan Fiscal Year End	$ 10,895,573	$ 34,897,366	$ (24,001,793)	-68.8%
Cash Collateral Held Under Securities Lending Agreements	5,412,983	22,205,390	(16,792,407)	
Non-Cash Collateral Held Under Securities Lending Agreements	5,825,894	13,866,163	(8,040,269)	
Total Collateral Held	**$ 11,238,877**	**$ 36,071,553**	**$ (24,832,676)**	**-68.8%**

The WSIB staff rebalances the GET Fund's 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, 2020

See notes to financial statements

		Percent of Total
ASSETS		
Investments:		
CASH AND CASH EQUIVALENTS	$ 24,166,210	1.6%
DEBT SECURITIES		
Commingled Intermediate Credit	874,410,509	
Total Debt Securities	874,410,509	60.1%
EQUITY SECURITIES		
Common and Preferred Stock	530,956,026	
Real Estate Investment Trusts	15,830,199	
Depository Receipts and Other	10,457,134	
Total Equity Securities	557,243,359	38.3%
Total Investments	1,455,820,078	100.0%
Collateral Held Under Securities Lending Agreements	5,412,983	
Pending Trades and Other Investment Receivables	1,817,787	
Total Assets	1,463,050,848	
LIABILITIES		
Pending Trades and Other Payables	55,514	
Obligations Under Securities Lending Agreements	5,412,983	
Total Liabilities	5,468,497	
NET INVESTMENT POSITION	$ 1,457,582,351	

GET Fund Statement of Changes in Net Investment Position - Year Ended June 30, 2020

See notes to financial statements

Net Investment Income		
Investment Income		
Interest, Dividends and Other Investment Income	$	16,052,331
Securities Lending Income		424,438
Net Realized Capital Gains		126,186,714
Unrealized Losses		(42,434,434)
Less:		
Securities Lending Rebates and Fees		(271,898)
Investment Expenses		(355,663)
WSIB Operating Expenses		(274,300)
Net Investment Income		99,327,188
Net Contribution		3,546,236
Increase in Net Investment Position		102,873,424
Net Investment Position - June 30, 2019		1,354,708,927
Net Investment Position - June 30, 2020	$	1,457,582,351

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 to the basic financial statements found in Note 6.

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 2020 was $0.4 million. Securities lending expenses during the fiscal year totaled $0.3 million.

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, 2020, 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. This 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 shall not exceed plus or minus 15 percent of the Bloomberg Barclays U.S. Intermediate Credit Index. Fixed income securities may temporarily exceed the duration target for changes in market interest rates, asset allocation rebalancing to policy targets, or significant stakeholder cash flows until rebalancing to duration targets can be achieved without financial harm to the portfolio. 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 GET Fund investments, as of June 30, 2020. 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, 2020, 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, 2020.

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, 2020, was approximately $10.9 million. The securities on loan remain in the Statement of Net Investment Position in their respective categories. At June 30, 2020, cash collateral received totaling $5.4 million is reported as a securities lending obligation, and the fair value of the reinvested cash collateral totaling $5.4 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, 2020, was $11.2 million.

Debt and equity securities were loaned and collateralized by the GET Fund's agent, with cash and U.S. Government or U.S. Agency Securities, including U.S. Agency Mortgage Backed Securities (exclusive of letters of credit). When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest of the loaned securities. The following table summarizes the securities held from reinvestment of cash collateral and securities received as collateral at June 30, 2020.

In Millions:	Cash Collateral	Non-Cash Collateral	Total
Repurchase Agreements	$ 2.1	$ -	$ 2.1
Yankee CD	1.5	-	1.5
Commercial Paper	1.3	-	1.3
U.S. Treasuries	-	5.5	5.5
Cash Equivalents and Other	0.5	-	0.5
Mortgage Backed Securities	-	0.3	0.3
Total Collateral Held	**$ 5.4**	**$ 5.8**	**$ 11.2**

During Fiscal Year 2020, securities lending transactions could be terminated on demand by either the GET Fund or the borrower. As of June 30, 2020, the cash collateral held had an average duration of 10.28 days and an average weighted final maturity of 33.11 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 2020, 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 2020, 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, 2020, 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 to 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, 2020, 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, 2020, 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, 2020 - Investment Derivative	
	Classification	Amount	Amount	Notional
FUTURES CONTRACTS:				
Equity Index Futures	Investment	$ 1,068,143	$ 72,415	1,750

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 and Financial Services unit of the WSIB, which regularly monitors fair value measurements. Fair value measurements are prepared and reviewed monthly. 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 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 fair value measurements as of June 30, 2020:

		Fair Value Measurements Using:		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
INVESTMENTS				
EQUITY SECURITIES	$ 557,243,359	$ 555,466,211	$ 1,499,288	$ 277,860
Total Investments By Fair Value Level	557,243,359	555,466,211	1,499,288	277,860
INVESTMENTS MEASURED AT NET ASSET VALUE				
Commingled Intermediate Credit	874,410,509			
Total Investments Measured at Fair Value	$ 1,431,653,868			
OTHER ASSETS (LIABILITIES) AT FAIR VALUE				
Collateral Held Under Securities Lending Agreements	$ 5,412,983	$ -	$ 5,412,983	$ -
Margin Variation Receivable - Futures Contracts	72,415	72,415	-	-
Obligations Under Securities Lending Agreements	(5,412,983)	-	(5,412,983)	-
Total Other Assets (Liabilities) Measured at Fair Value	$ 72,415	$ 72,415	$ -	$ -

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. Values are accurate as of the last business day of each reporting period end.

Investments classified as Level 2 in the above table were primarily comprised of exchange traded stocks traded in inactive markets. 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, a commingled investment fund managed by the WSIB. 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 determine 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’s 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 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	40%	35%-45%
Fixed Income	60%	55%-65%
Cash	0%	0%-5%

Schedule 1: Schedule of Maturities and Credit Ratings

Investment Type		Total Fair Value	Maturity								Effective Duration	Credit Rating
			Less than 1 year		1-5 years		6-10 years		More than 10 years			
Commingled Intermediate Credit	$	874,410,509	$	52,673,026	$	466,583,450	$	347,181,070	$	7,972,963	5.1	Schedule 2

Investments Not Required to be Categorized		
Equity Securities		557,243,359
Cash and Cash Equivalents		24,166,210
Total Investments Not Categorized		581,409,569
Total Investments	$	1,455,820,078

* Duration excludes cash and cash equivalents

Schedule 2: Additional Credit Rating Disclosures

Moody's Equivalent Credit Rating	Commingled Intermediate Credit	
	Total Fair Value	
Aaa	$	43,538,917
Aa1		17,821,467
Aa2		14,535,871
Aa3		53,515,896
A1		122,921,494
A2		123,449,691
A3		125,280,627
Baa1		117,327,209
Baa2		149,920,526
Baa3		97,189,192
Ba1 or Lower		8,909,619
Total Fair Value	$	874,410,509

Schedule 3: Foreign Currency Exposure by Currency

	Investment Type In U.S. Dollar Equivalent			
Foreign Currency Denomination	Cash and Cash Equivalents	Equity Securities	Total	Percent of Total GET Funds Investments
AUSTRALIAN DOLLAR	$ 12,941	$ 11,159,394	$ 11,172,335	0.8%
BRAZILIAN REAL	12,766	3,729,727	3,742,493	0.3%
CANADIAN DOLLAR	90,826	15,594,375	15,685,201	1.1%
SWISS FRANC	2,097	15,374,147	15,376,244	1.1%
DANISH KRONE	4,434	3,487,004	3,491,438	0.2%
EURO CURRENCY	64,093	48,953,709	49,017,802	3.3%
POUND STERLING	73,569	23,425,498	23,499,067	1.6%
HONG KONG DOLLAR	124,770	21,061,307	21,186,077	1.5%
INDIAN RUPEE	224,687	5,523,302	5,747,989	0.4%
JAPANESE YEN	184,751	41,871,253	42,056,004	2.8%
SOUTH KOREAN WON	105,980	8,242,570	8,348,550	0.6%
SWEDISH KRONA	7,776	5,587,279	5,595,055	0.4%
NEW TAIWAN DOLLAR	257,681	8,996,041	9,253,722	0.6%
OTHER - MISCELLANEOUS	871,320	19,978,263	20,849,583	1.4%
	$ 2,037,691	$ 232,983,869	$ 235,021,560	16.1%

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Members of the Washington State Investment Board

Olympia, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Guaranteed Education Tuition Fund as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Guaranteed Education Tuition Fund's financial statements, and have issued our report thereon dated September 25, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Guaranteed Education Tuition Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Guaranteed Education Tuition Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Guaranteed Education Tuition Fund's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Guaranteed Education Tuition Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Guaranteed Education Tuition Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Guaranteed Education Tuition Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Boise, Idaho
September 25, 2020

DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST FUND

EideBailly

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Independent Auditor's Report

To the Members of the Washington State Investment Board

Olympia, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the Developmental Disabilities Endowment Trust Fund (which is 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, 2020, 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.

Auditor's Responsibility

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

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

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appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net investment position of the Developmental Disabilities Endowment Trust Fund as of June 30, 2020, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2020 on our consideration of the Developmental Disabilities Endowment Trust Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Developmental Disabilities Endowment Trust Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Developmental Disabilities Endowment Trust Fund's internal control over financial reporting and compliance.

Eide Bailly LLP

Boise, Idaho
September 25, 2020

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, 2020. 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, 2020. The following table compares the net investment position of each major investment classification at June 30, 2020, with those at June 30, 2019. In addition, the table summarizes the changes in each major investment classification for the fiscal year, and it compares 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 DDEF financial statements.

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, 2020. Participants' net contributions to the DDEF during the year increased net investment position by $1.3 million and these contributions were invested in balanced funds. Net realized and unrealized gains increased net investment position by $4.3 million. The remaining increase was attributable to net investment income reinvested within the fund.

Net investment income remained fairly stable as compared to the prior fiscal year. Realized and unrealized gains decreased by 3.3 percent from the previous year as the result of a 70 basis point decline in overall returns. The current fiscal year return for the DDEF was 7.9 percent, compared to the prior year return of 8.6 percent. Interest, dividends and other investment income increased 17.1 percent due to increased dividend payments, which were reinvested in Balanced Funds. These invested balances increased by 10.4 percent over the previous year, contributing to the increased dividend payouts.

Contributions decreased by $0.7 million during the current fiscal year compared to the previous fiscal year. The DDEF experienced a decrease in the new enrollment rate during the current fiscal year as a result of the enactment of the Achieving a Better Life Experience (ABLE) savings plans nationwide.

DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST FUND

Summarized Change in Net Investment Position and Returns by Asset Class

	Fiscal Year End June 30, 2020					Fiscal Year End June 30, 2019					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	$ 29,452	$ 8,634,495	$ 5,034,383	$ 58,823,221	$ 72,521,551	$ 29,465	$ 10,480,286	$ 2,292,459	$ 52,018,858	$ 64,821,068	$ 7,700,483	11.9%
Investment Income:												
Interest, Dividends, and Other Investment Income	635	93	2,267	1,501,474	1,504,469	1,543	-	2,107	1,281,587	1,285,237	219,232	17.1%
Realized and Unrealized Gains (Losses)	-	671,973	219,343	3,380,052	4,271,368	-	694,209	200,006	3,523,441	4,417,656	(146,288)	-3.3%
Less: Investment Expenses	(97)	(1,788)	(2,641)	(13,801)	(18,327)	(122)	(333)	(1,393)	(2,953)	(4,801)	13,526	281.7%
Net Investment Income (Loss)	538	670,278	218,969	4,867,725	5,757,510	1,421	693,876	200,720	4,802,075	5,698,092	59,418	1.0%
Net Amount Contributed	1,264,833	-	-	-	1,264,833	2,002,391	-	-	-	2,002,391	(737,558)	-36.8%
Transfers to Other Asset Classes	(1,267,229)	203,695	(199,464)	1,262,998	-	(2,003,825)	(2,539,667)	2,541,204	2,002,288	-	NA	NA
Ending Net Investment Position	**$ 27,594**	**$ 9,508,468**	**$ 5,053,888**	**$ 64,953,944**	**$ 79,543,894**	**$ 29,452**	**$ 8,634,495**	**$ 5,034,383**	**$ 58,823,221**	**$ 72,521,551**	**$ 7,022,343**	**9.7%**

	Cash and Cash Equivalents (*)	Debt Securities	Equity Securities (*)	Balanced Funds	Total
Increase (Decrease) in Net Investment Position	**$ (1,858)**	**$ 873,973**	**$ 19,505**	**$ 6,130,723**	**$ 7,022,343**
Percent Change in Net Investment Position	**Trace**	**10.1%**	**0.4%**	**10.4%**	**9.7%**
One Year Time Weighted Return - June 30, 2020	**1.4%**	**7.7%**	**1.5%**	**8.2%**	**7.9%**
One Year Time Weighted Return - June 30, 2019	**2.1%**	**8.5%**	**4.9%**	**8.9%**	**8.6%**

(*) 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 decreased slightly over the prior fiscal year. 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, 2020, decreased over the prior fiscal year by 70 basis points, resulting in a decrease in interest income over the prior year. Short-term rates moved considerably lower over the fiscal year as a result of U.S. Federal Reserve (Fed) actions. The Fed decreased the target range for federal funds by a net of 225 basis points during the fiscal year. The Net Investment Position of Cash and Cash Equivalents include accrued income and accrued expenses.

- ***Debt securities*** net investment position increased by $0.9 million. Equity securities were sold and the resulting proceeds of $0.2 million were reinvested in debt securities in order to maintain strategic asset allocation targets. The DDEF invests in the Daily Valued Bond Fund (Bond Fund), a commingled investment fund managed by the WSIB. Accordingly, interest income is retained and reinvested within the commingled fund, which is reflected in net realized and unrealized gains and losses. Net realized and unrealized gains increased net investment position by $0.7 million as a result of strong returns in the fixed income portfolio. The return of the portfolio for the current fiscal year was 7.7 percent, a decrease of 80 basis points over the prior year return, resulting in a slight decrease of net realized and unrealized gains from the previous year.

  Debt securities outperformed its benchmark of 7.0 percent which is the Bloomberg Barclays U.S. Intermediate Credit Index. During the current fiscal year, interest rates fell substantially, causing bond prices to increase, which positively impacted overall bond market returns. Credit spreads widened during the current fiscal year, causing the returns to be slightly lower than the previous year. A combination of factors contributed to the Bond Fund's outperformance of its benchmark, including security selection, industry allocation within credit bonds, and the maturity profile of the fund compared to the benchmark.

The fiscal year began with the global economy in a continued slowdown. The U.S. Federal Reserve eased interest rates three times during the first half of the fiscal year by a combined total of 75 basis points. With easing monetary policy in both the U.S. and Europe, economic activity picked up steam in the second quarter of Fiscal Year 2020. Positive employment numbers were reported and trade tensions with China eased as phase one of a new trade agreement was signed. The United Kingdom (U.K.) finally agreed on a Brexit strategy, which helped ease equity market tensions. With several distractions seemingly addressed, global equity markets experienced excellent returns during the second quarter of the fiscal year.

The third quarter of fiscal year through mid-February continued to perform well, with global investors reacting positively to the massive economic stimulus in the system, robust employment numbers, and positive calendar year fourth quarter 2019 corporate earnings. The S&P 500 Index reached an all-time high on February 19, 2020. During the last few weeks in February, the focus of global investors turned to the coronavirus (COVID-19) outbreak. The fears of the economic impact of a global pandemic, both in the near and long term, sent developed countries' government bond yields lower and equity markets tumbling. Global equity markets continued to fall sharply, with the majority of the decline occurring in March.

Corporate credit spreads widened dramatically during the third quarter of the fiscal year, paralleling the drop in global equity markets. The Bloomberg Barclays U.S. Corporate High Yield Index credit spreads widened an astonishing 544 basis points, ending the quarter at 880 basis points. Investment Grade bonds performed better by widening 179 basis points, ending the quarter at 272 basis points. Corporate credit spreads widened to levels not seen since May 2009, where record highs were set during the Global Financial Crisis. Faced with an extraordinary economic shutdown, the U.S. Federal Reserve lowered the federal funds rate by 150 basis points in March to 0.25 percent.

Early in the fourth quarter of the fiscal year, the U.S. Federal Reserve restarted and expanded asset purchase programs, stating they would purchase as many government bonds as necessary to stabilize the liquidity of the government bond market. In addition, a credit purchase program was implemented to provide financial assistance to corporate borrowers. The U.S. Congress approved a record stimulus package, including extended jobless benefits along with small business loans. The stimulus package was estimated to be worth roughly 10 percent of Gross Domestic Product (GDP). Later in the fourth quarter of the fiscal year, the Fed announced they would buy investment grade and high yield bonds along with exchange traded funds (ETFs). These announcements led to large rallies in both high yield and investment grade bonds. The Fed voted unanimously to keep the Fed Funds target rate unchanged in the 0 percent to 0.25 percent range. Credit spreads rallied along with global equity markets in response to these events.

As economies started to reopen following the closures caused by the COVID-19 pandemic, economic data showed signs of a sharp rebound. The Fiscal Year 2020 ended with a very strong quarter for global equities and credit markets, as central banks and governments continued to provide enormous amounts of stimulus. High yield spreads narrowed 254 basis points to end the fiscal year at 626 basis points, while investment grade spreads narrowed 122 basis points to end at 150 basis points. With interest rates unchanged and credit spreads narrower, there was a wide dispersion of returns between various sectors in fixed income. The 10-year U.S. Treasury rate declined a total of 135 basis points during Fiscal Year 2020, with the majority of decline occurring in March.

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

- ***Balanced mutual funds*** net investment position increased by $6.1 million. Private trust fund contributions of $1.3 million were invested in this asset class and increased the net investment position. Realized and unrealized gains increased the portfolio by $3.4 million. The remaining increase was due to the reinvestment of income within the balanced mutual fund. The fund is invested for the purpose of capital appreciation, current income, and long-term growth through a mix of 60 percent U.S. equities and 40 percent U.S. bonds. The overall performance of the fund in the current fiscal year was 8.2 percent, which was a decrease of 70 basis points from the prior fiscal year. As a balanced fund, strong returns from fixed income managed to offset the fairly weak returns in equity markets, maintaining a performance comparable to the prior fiscal year. The blended benchmark for the balanced fund, composed of 60 percent CRSP U.S. Total Market Index and 40 percent Bloomberg Barclays U.S. Aggregate Float Adjusted Total Return Index, returned 9.1 percent for the fiscal year. The underweight to fixed income caused the fund the to underperform the benchmark in the current fiscal year.

  See equity securities and debt securities narratives for further market commentary.

- ***Equity securities*** net investment position increased slightly from the prior fiscal year. Realized and unrealized gains within the portfolio of $0.2 million were offset with corresponding redemptions from the equity fund, which were reinvested in debt securities. The overall investment return for equity securities in the current fiscal year of 1.5 percent was a decrease from the prior fiscal year return of 4.9 percent. During the current fiscal year, the equity portfolio closely tracked its benchmark, the MSCI All Country World IMI with U.S. Gross Index, which returned 1.5 percent during the period.

  In the third quarter of Fiscal Year 2020, equity markets collapsed and volatility surged amid heightened anxieties around the coronavirus pandemic and its impact on the global economy. The sell-off, which began in late February, continued through March as governments around the world ordered citizens to shelter in place and businesses to remain shuttered. At their nadir, global equity markets traded 30+ percent off of their highs from the start of the year before, ending the quarter down 22 percent. In the U.S., the longest bull run in history came to an end after posting the worst quarterly loss since 2008 (down 21 percent). Countries responded to the crisis by unveiling massive stimulus programs in efforts to prop up flagging economies and prevent large scale business failures. The sheer size of the fiscal and monetary responses dwarfed even that which was undertaken in 2008 during the Global Financial Crisis. In the last quarter of the fiscal year, optimism over phased re-openings of select economies and the aggressive stimulus measures stimulated the equity markets to recover some lost ground, ending the fiscal year with modestly positive returns. Despite strong near-term performance in fixed income, global equity markets continued to offer attractive returns over the long-term, outperforming the fixed income benchmark over a 10-year period, albeit with much higher volatility.

The returns of the various capital markets, within which the WSIB invests, directly impacted the fair value of the DDEF net investment position. These 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, 2020

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	18,335	9,258	27,593	0.0%
DEBT SECURITIES				
Commingled Intermediate Credit	9,508,468	-	9,508,468	12.0%
EQUITY SECURITIES				
Commingled Equity Index Funds	5,054,257	-	5,054,257	6.4%
BALANCED FUNDS				
Commingled Balanced Trust	-	64,953,944	64,953,944	81.7%
Total Investments	14,581,060	64,963,202	79,544,262	100.0%
LIABILITIES				
Accrued Expenses Payable	368	-	368	
NET INVESTMENT POSITION	**14,580,692**	**64,963,202**	**79,543,894**	

DDEF Statement of Changes in Net Investment Position - Year Ended June 30, 2020

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	2,760	1,501,709	1,504,469
Net Realized Capital Gains	379,116	-	379,116
Unrealized Gains	512,199	3,380,053	3,892,252
Less:			
Investment Expenses	(1,717)	(1,777)	(3,494)
WSIB Operating Expenses	(14,833)	-	(14,833)
Net Investment Income	877,525	4,879,985	5,757,510
Net Amount Contributed	14,833	1,250,000	1,264,833
Increase in Net Investment Position	892,358	6,129,985	7,022,343
Net Investment Position, June 30, 2019	13,688,334	58,833,217	72,521,551
Net Investment Position, June 30, 2020	14,580,692	64,963,202	79,543,894

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 to the basic financial statements found in Note 4.

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, 2020, investment securities (excluding cash, and cash equivalents) 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 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. Fixed income securities may temporarily exceed the duration target for changes in market interest rates, asset allocation rebalancing to policy targets, or significant stakeholder cash flows until rebalancing to duration targets can be achieved without financial harm to the portfolio. 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 DDEF investments, as of June 30, 2020. 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 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, 2020, 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 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, 2020.

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, 2020, consists of $2.1 million (excludes U.S. dollar denominated securities) invested in various global commingled equity index funds. Foreign currency exposure for these commingled equity index funds are 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.

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 as of June 30, 2020:

		Fair Value Measurements Using:		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
INVESTMENTS				
BALANCED FUNDS				
Balanced Mutual Funds	$ 64,953,944	$ 64,953,944	$ -	$ -
Total Investments By Fair Value Level	$ 64,953,944	$ 64,953,944	$ -	$ -
COMMINGLED INVESTMENT FUNDS - INVESTMENTS MEASURED AT NET ASSET VALUE				
Commingled Equity Index Funds	5,054,257			
Commingled Intermediate Credit	9,508,468			
Total Investments at Net Asset Value	14,562,725			
Total Investments Measured at Fair Value	$ 79,516,669			

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 (NYSE). The closing market price of the shares at June 30, 2020, was $39.13 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 issue or reduce 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.

Six funds are invested in equity securities and, when 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 manager's 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 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 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 following performance objectives:

- 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	65%	62%-68%
Global Equity	35%	32%-38%

Private Funds	Target
Fixed Income	40%
Equities	60%

Schedule 1: Schedule of Maturities and Credit Ratings

Investment Type	Total Fair Value	Maturity: Less than 1 year	Maturity: 1-5 years	Maturity: 6-10 years	Maturity: More than 10 years	Effective Duration	Credit Rating
Commingled Intermediate Credit	$ 9,508,468	$ 572,774	$ 5,073,697	$ 3,775,298	$ 86,699	5.1	Schedule 2
Investments Not Required to be Categorized							
Commingled Equity Index Funds	5,054,257						
Balanced Mutual Funds	64,953,944						
Money Market Funds	27,593						
Total Investments Not Categorized	70,035,794						
Total Investments	$ 79,544,262						

Schedule 2: Additional Credit Rating Disclosures

Moody's Equivalent Credit Rating	Commingled Intermediate Credit Market Value
Aaa	$ 473,449
Aa1	193,793
Aa2	158,065
Aa3	581,940
A1	1,336,666
A2	1,342,410
A3	1,362,320
Baa1	1,275,833
Baa2	1,630,257
Baa3	1,056,850
Ba1 or Lower	96,885
Total Fair Value	$ 9,508,468

Schedule 3: Foreign Currency Exposure

Foreign Currency Denomination	Equity Securities	Percent of Total Investments
AUSTRALIAN DOLLAR	$ 99,555	0.1%
BRAZILIAN REAL	31,937	0.0%
CANADIAN DOLLAR	142,838	0.2%
SWISS FRANC	136,555	0.2%
DANISH KRONE	32,286	0.0%
EURO CURRENCY	435,742	0.5%
POUND STERLING	205,387	0.3%
HONG KONG DOLLAR	177,086	0.2%
INDIAN RUPEE	50,143	0.1%
JAPANESE YEN	375,278	0.5%
SOUTH KOREAN WON	73,012	0.1%
SWEDISH KRONA	50,752	0.1%
NEW TAIWAN DOLLAR	80,658	0.1%
OTHER (MISC)	171,199	0.2%
Total Foreign Currency Exposure	$ 2,062,428	2.6%

CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Members of the Washington State Investment Board

Olympia, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Developmental Disabilities Endowment Trust Fund as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Developmental Disabilities Endowment Trust Fund's financial statements, and have issued our report thereon dated September 25, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Developmental Disabilities Endowment Trust Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Developmental Disabilities Endowment Trust Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Developmental Disabilities Endowment Trust Fund's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Developmental Disabilities Endowment Trust Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Developmental Disabilities Endowment Trust Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Developmental Disabilities Endowment Trust Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Boise, Idaho
September 25, 2020

WASHINGTON STATE OPPORTUNITY SCHOLARSHIP 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 Washington State Opportunity Scholarship Fund (which is comprised of WSOS – Scholarship Fund, WSOS – Endowment Fund, and WSOS – Cash Reserve Fund) of the state of Washington as managed by the Washington State Investment Board (the Washington State Opportunity Scholarship Fund), which comprise the statement of net investment position as of June 30, 2020, 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.

Auditor's Responsibility

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

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

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appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net investment position of the Washington State Opportunity Scholarship Fund as of June 30, 2020, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2020 on our consideration of the Washington State Opportunity Scholarship Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Washington State Opportunity Scholarship Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Washington State Opportunity Scholarship Fund's internal control over financial reporting and compliance.

Eide Bailly LLP

Boise, Idaho
September 25, 2020

Management Discussion and Analysis

Management's Discussion and Analysis for the Washington State Opportunity Scholarship (WSOS) 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 covers the WSOS Fund 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 WSOS Fund, as of June 30, 2020. 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 WSOS Fund for the year ended June 30, 2020. The following table compares the net investment position of each major investment classification at June 30, 2020, with those at June 30, 2019. In addition, they summarize the changes in each major investment classification for the fiscal year ended June 30, 2020 and 2019, 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 WSOS Fund.

As shown in the following table, the net investment position of the WSOS Fund increased by $3.1 million during the fiscal year ended June 30, 2020. Net withdrawals from the WSOS Fund during the year decreased net investment position by $1.9 million. Net investment income increased net investment position by $5.0 million and was reinvested in the various asset classes of the WSOS Fund.

Net investment income increased by $0.1 million during the current fiscal year as compared to the prior fiscal year. An increase of $0.2 million in net realized and unrealized gains increased net investment income from the previous year. While the fixed income and equity returns were lower compared to the previous fiscal year, they were still positive, which contributed to the increase in these market related gains. Interest income on cash balances decreased by $0.1 million, partially offsetting the increases from market related gains. Interest income declined over the previous years due to falling interest rates, as discussed in the following sections. The current fiscal year return for the WSOS Fund was 4.7 percent, compared to the prior fiscal year return of 5.0 percent.

The WSOS Fund administrator oversees the program operations and determines funds available for investment or the amount of withdrawals required from invested balances to fund scholarships and operational expenses. The administrator withdrew $1.9 million from private scholarship funds during the current fiscal year which was a decrease in net contributions and withdrawals of $8.2 million over the prior fiscal year. Currently, WSOS expects to continue to make withdrawals from the private funds invested by WSIB in order to fund scholarship liabilities. The amount is dependent on the timing of pledge payments received in subsequent years and the size of new donations.

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, 2020				Fiscal Year End June 30, 2019				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	$ 16,721,955	$ 54,866,850	$ 33,032,445	$ 104,621,250	$ 12,806,268	$ 28,642,170	$ 51,964,236	$ 93,412,674	$ 11,208,576	12.0%
Investment Income:										
Interest, Dividends, and Other Investment Income	260,963	-	5,756	266,719	352,795	-	8,944	361,739	(95,020)	-26.3%
Realized and Unrealized Gains (Losses)	-	4,580,295	178,801	4,759,096	-	4,081,760	491,896	4,573,656	185,440	4.1%
Less: Investment Expenses	(38,918)	(12,321)	(13,550)	(64,789)	(32,820)	(7,388)	(18,673)	(58,881)	5,908	10.0%
Net Investment Income (Loss)	222,045	4,567,974	171,007	4,961,026	319,975	4,074,372	482,167	4,876,514	84,512	1.7%
Net Withdrawal by WSOS	(1,868,004)	-	-	(1,868,004)	6,332,062	-	-	6,332,062	(8,200,066)	-129.5%
Transfers to Other Asset Classes	2,543,456	4,151,321	(6,694,777)	-	(2,736,350)	22,150,308	(19,413,958)	-	-	NA
Ending Net Investment Position	**$ 17,619,452**	**$ 63,586,145**	**$ 26,508,675**	**$ 107,714,272**	**$ 16,721,955**	**$ 54,866,850**	**$ 33,032,445**	**$ 104,621,250**	**$ 3,093,022**	**3.0%**

	Cash and Cash Equivalents(*)	Debt Securities	Equity Securities (*)	Total
Increase (Decrease) in Net Investment Position	**$ 897,497**	**$ 8,719,295**	**$ (6,523,770)**	**$ 3,093,022**
Percent Change in Net Investment Position	**5.4%**	**15.9%**	**-19.7%**	**3.0%**

	Cash and Cash Equivalents(*)	Debt Securities	Equity Securities (*)	Total
One Year Time Weighted Return - June 30, 2020	**1.3%**	**7.7%**	**1.7%**	**4.7%**
One Year Time Weighted Return - June 30, 2019	**2.1%**	**8.5%**	**5.8%**	**5.0%**

(*) 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 increased during the current fiscal year by $0.9 million. Withdrawals of $1.9 million were requested by the administrator from investments in the private scholarship fund. Approximately $2.5 million was subsequently transferred from other asset classes to maintain strategic asset allocation targets throughout the year. The remaining increase was due to net investment income reinvested within the fund.

  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, 2020, decreased over the prior fiscal year to 1.3 percent, resulting in a decrease in interest income over the prior year. Short-term rates moved considerably lower over the last year as a result of the U.S. Federal Reserve (Fed) actions. The U.S. Federal Reserve decreased the target range for the federal funds by 225 basis points during the fiscal year. The Net Investment Position of Cash and Cash Equivalents include accrued income and accrued expenses.

- ***Debt securities*** net investment position increased by $8.7 million over the prior year. Equity securities were sold during the current year and the proceeds of $4.2 million were reinvested in debt securities. Rebalancing transfers occur periodically across the portfolio to maintain strategic asset allocation targets. The WSOS Fund invests in the Daily Valued Bond Fund (Bond Fund), a commingled investment fund managed by the WSIB. Accordingly, interest income is retained and reinvested within the commingled fund, which is reflected in net realized and unrealized gains and losses. Net realized and unrealized gains increased net investment position by $4.6 million as a result of strong returns in the fixed income portfolio. The return of the portfolio for the current fiscal year was 7.7 percent, which is a slight decrease over the prior fiscal year end return of 8.5 percent. Debt securities outperformed its benchmark of 7.0 percent, which is the Bloomberg Barclays U.S. Intermediate Credit Index. Income yield and the considerable fall of interest rates over the fiscal year contributed to the positive return in the fixed income portfolio. Other factors contributing to the Bond Fund's outperformance include security selection, industry allocation within credit bonds, and the maturity profile of the fund compared to the benchmark.

The fiscal year began with the global economy in a continued slowdown. The U.S. Federal Reserve eased interest rates three times during the first half of the fiscal year by a combined total of 75 basis points. With easing monetary policy in both the U.S. and Europe, economic activity picked up steam in the second quarter of Fiscal Year 2020. Positive employment numbers were reported and trade tensions with China eased as phase one of a new trade agreement was signed. The United Kingdom (U.K.) finally agreed on a Brexit strategy, which helped ease equity market tensions. With several distractions seemingly addressed, global equity markets experienced excellent returns during the second quarter of the fiscal year.

The third quarter of the fiscal year through mid-February continued to perform well, with global investors reacting positively to the massive economic stimulus in the system, robust employment numbers, and positive calendar year fourth quarter 2019 corporate earnings. The S&P 500 Index reached an all-time high on February 19, 2020. During the last few weeks in February, the focus of global investors turned to the coronavirus (COVID-19) outbreak. The fears of the economic impact of a global pandemic, both in the near and long term, sent developed countries' government bond yields lower and equity markets tumbling. Global equity markets continued to fall sharply, with the majority of the decline occurring in March.

Corporate credit spreads widened dramatically during the third quarter of the fiscal year, paralleling the drop in global equity markets. The Bloomberg Barclays U.S. Corporate High Yield Index credit spreads widened an astonishing 544 basis points, ending the quarter at 880 basis points. Investment Grade bonds performed better by widening 179 basis points, ending the quarter at 272 basis points. Corporate credit spreads widened to levels not seen since May 2009, where record highs were set during the Global Financial Crisis. Faced with an extraordinary economic shutdown, the U.S. Federal Reserve lowered the federal funds rate by 150 basis points in March to 0.25 percent.

Early in the fourth quarter of the fiscal year, the U.S. Federal Reserve restarted and expanded asset purchase programs, stating they would purchase as many government bonds as necessary to stabilize the liquidity of the government bond market. In addition, a credit purchase program was implemented to provide financial assistance to corporate borrowers. The U.S. Congress approved a record stimulus package, including extended jobless benefits, along with small business loans. The stimulus package was estimated to be worth roughly 10 percent of Gross Domestic Product (GDP). Later in the fourth quarter of the fiscal year, the Fed announced they would buy investment grade and high yield bonds, along with exchange traded funds (ETFs). These announcements led to large rallies in both high yield and investment grade bonds. The Fed voted unanimously to keep the Fed Funds target rate unchanged in the 0 percent to 0.25 percent range. Credit spreads rallied along with global equity markets in response to these events.

As economies started to reopen following the closures caused by the COVID-19 pandemic, economic data showed signs of a sharp rebound. The Fiscal Year 2020 ended with a very strong quarter for global equities and credit markets, as central banks and governments continued to provide enormous amounts of stimulus. High yield spreads narrowed 254 basis points to end the fiscal year at 626 basis points, while investment grade spreads narrowed 122 basis points to end at 150 basis points. With interest rates unchanged and credit spreads narrower, there was a wide dispersion of returns between various sectors in fixed income. The 10-year U.S. Treasury rate declined a total of 135 basis points during Fiscal Year 2020, with the majority of decline occurring in March.

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

- ***Equity securities*** net investment position decreased by $6.5 million. Equity securities were sold and the proceeds of $6.7 million were transferred to other asset classes, contributing to the majority of this decrease. Rebalancing transfers periodically occur across the portfolio to maintain strategic asset allocation targets. The decrease from these rebalancing trades were slightly offset by net realized and unrealized gains of $0.2 million in the current fiscal year. The equity portfolio returned 1.7 percent during the current fiscal year, as compared to the prior fiscal year return of 5.8 percent. This resulted in a decrease of net realized and unrealized gains over the prior fiscal year of $0.3 million.

  The WSOS Fund's global equity portfolio is passively managed and structured to closely track the performance of its global benchmark. The WSOS Scholarship Fund equity portfolio returned 1.3 percent during the fiscal year, while the WSOS Endowment Fund equity portfolio returned 2.2 percent. The WSOS Technical Scholarship, which was initially funded in late 2019, returned -1.9 percent since inception; though this figure does not reflect a full year of performance. Overall, the equity portfolio returned 1.7 percent across the aggregate total of invested equity balances. The global equity benchmark returned 1.5 percent as measured by Morgan Stanley Capital International (MSCI) indexes, which are a broad barometer of overall market returns. The primary driver behind the difference in returns among the WSOS accounts and global benchmark can be attributed to the timing of cashflows related to policy driven rebalancing.

  In the third quarter of Fiscal Year 2020, equity markets collapsed and volatility surged amid heightened anxieties around the coronavirus pandemic and its impact on the global economy. The sell-off which began in late February, continued through March as governments around the world ordered citizens to shelter in place and businesses to remain shuttered. At their nadir, global equity markets traded 30+ percent off of their highs from the start of the year, before ending the quarter down 22 percent. In the U.S., the longest bull run in history came to an end after posting the worst quarterly loss since 2008 (down 21 percent). Countries responded to the crisis by unveiling massive stimulus programs in efforts to prop up flagging economies and prevent large scale business failures. The sheer size of the fiscal and monetary responses dwarfed even that which was undertaken in 2008 during the Global Financial Crisis. In the last quarter of the fiscal year, optimism over phased re-openings of select economies and the aggressive stimulus measures stimulated the equity markets to recover some lost ground, ending the year with modestly positive returns. Despite strong near-term performance in fixed income, global equity markets continued to offer attractive returns over the long-term, outperforming the fixed income benchmark over a 10-year period, albeit with much higher volatility.

The fair value of the WSOS Fund 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.

Washington State Opportunity Scholarship Fund Statement of Net Investment Position - June 30, 2020

See notes to financial statements

	WSOS - Scholarship Fund		WSOS -Endowment Fund		WSOS - Cash Reserve		Total	Percent of Total
ASSETS								
Investments:								
CASH AND CASH EQUIVALENTS								
Short Term Investment Funds	$	17,019,187	$	586,194	$	12,620	$ 17,618,001	16.4%
DEBT SECURITIES								
Commingled Intermediate Credit		62,582,962		1,003,183		-	63,586,145	59.0%
EQUITY SECURITIES								
Commingled Equity Index Funds		22,559,596		3,950,666		-	26,510,262	24.6%
Total Investments		102,161,745		5,540,043		12,620	107,714,408	100.0%
Investment Earnings Receivable		4,192		145		3	4,340	
Total Assets		102,165,937		5,540,188		12,623	107,718,748	
LIABILITIES								
Accrued Expenses Payable		4,135		339		2	4,476	
NET INVESTMENT POSITION	**$**	**102,161,802**	**$**	**5,539,849**	**$**	**12,621**	**$ 107,714,272**	

Washington State Opportunity Scholarship Fund Statement of Changes in Net Investment Position - Year Ended June 30, 2020

See notes to financial statements

	WSOS - Scholarship Fund		WSOS -Endowment Fund		WSOS - Cash Reserve		Total
Net Investment Income							
Investment Income:							
Interest, Dividends and Other Investment Income	$	144,933	$	121,603	$	183	$ 266,719
Net Realized and Unrealized Gains		4,672,235		86,861		-	4,759,096
Less:							
Investment Expenses		(30,008)		(13,728)		(27)	(43,763)
WSIB Operating Expenses		(17,548)		(3,478)		-	(21,026)
Net Investment Income		4,769,612		191,258		156	4,961,026
Cash Transfers		25,018,961		(24,996,158)		(22,803)	-
Net Amount Withdrawn		(1,888,004)		-		20,000	(1,868,004)
Increase (Decrease) in Net Investment Position		27,900,569		(24,804,900)		(2,647)	3,093,022
Net Investment Position, June 30, 2019		74,261,233		30,344,749		15,268	104,621,250
Net Investment Position, June 30, 2020	$	102,161,802	$	5,539,849	$	12,621	$ 107,714,272

Notes to Financial Statements

Note 1. Description of Funds and Significant Accounting Policies

Description of Funds

The Washington State Opportunity Scholarship Fund 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 WSOS Fund is granted to the Washington State Investment Board, in accordance with Revised Code of Washington (RCW) 28B.145.090. The WSOS Fund is comprised of four distinct pools of assets, each funded by a mix of private funds and state matching funds (RCW 28B.145.040). The four pools are comprised of three scholarship accounts and one endowment account. The primary distinction between the two account types is that scholarships may be paid out of both principal and earnings from the scholarship accounts, while scholarships out of the endowment account, if eligible, must be paid out of investment earnings. The financial statements present only the activity of the WSOS Fund 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 WSOS Fund 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 to the basic financial statements found in Note 4.

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 WSOS 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 WSOS Fund will not be able to recover the value of its deposits, investments, or collateral securities. As of June 30, 2020, investment securities (excluding cash and cash equivalents) are registered and held in the name of the WSIB, for the benefit of the WSOS 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. This 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 WSOS Fund'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. Fixed income securities may temporarily exceed the duration target for changes in market interest rates, asset allocation rebalancing to policy targets, or significant stakeholder cash flows, until rebalancing to duration targets can be achieved without financial harm to the portfolio. 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 WSOS Fund's investments, as of June 30, 2020. 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 WSOS Fund'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 WSOS Fund's rated debt investments, as of June 30, 2020, 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 WSOS Fund fair value at the time of purchase, nor shall its fair value exceed 6 percent of the WSOS Fund fair value at any time. There was no concentration of credit risk that exceeded these limits as of June 30, 2020.

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 WSOS Fund has no formal policy to limit foreign currency risk. The only security held by the WSOS Fund with foreign currency exposure at June 30, 2020, consisted of $10.9 million invested in an international commingled equity index funds (MSCI All Country World Investible Market Index). The WSOS Fund'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 WSOS Fund 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 and Financial Services 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 WSOS Fund invests in Collective Investment Trusts operated by a bank or trust company and groups assets contributed into a commingled investment fund. In addition, the WSOS Fund 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 issue or reduce 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 Bond Fund, which is actively managed to meet or exceed the return of the Bloomberg Barclays U.S. Intermediate Credit Index. The WSOS Fund 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, 2020:

	Fair Value
INVESTMENTS	
INVESTMENTS MEASURED AT NET ASSET VALUE	
Commingled Equity Index Funds	$ 26,510,262
Commingled Intermediate Credit	63,586,145
Total Investments at Net Asset Value	90,096,407
Total Investments Measured at Fair Value	$ 90,096,407

Note 5. Summary of Investment Policy

Under RCW 43.33A.030, trusteeship of WSOS Fund 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 WSOS Fund 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 compromise 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 WSOS Fund program.
- 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 (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 WSOS Fund 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.

State Match Funds

The benchmark for the state funds is the 90-day Treasury Bill return. 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.

Private Funds

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 Fund, with a benchmark of the Bloomberg Barclays U.S. Intermediate Credit Index. In addition, the WSIB Bond Fund duration range shall not exceed plus or minus 15 percent of the duration of this index. Fixed income securities may temporarily exceed the duration target for changes in market interest rates, asset allocation rebalancing to policy targets, or significant stakeholder cash flows until rebalancing to duration targets can be achieved without financial harm to the portfolio.

The cash component will be invested in a portfolio of high-quality securities, including U.S. treasury bills, notes, and other obligations issued or guaranteed by the U.S. government with a maturity of 3 months or less. The benchmark for the cash component is the 90-day Treasury bill return.

The policy ranges noted are long term targets and may deviate in the short term as a result of interim market movements.

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

Private Fund Scholarship		
	Target	**Range**
Cash	5%	0%-10%
Public Equity	25%	20%-30%
Fixed Income	70%	65%-75%

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

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	$ 63,586,145	$ 3,830,322	$ 33,929,422	$ 25,246,616	$ 579,785	5.1	Schedule 2
Investments Not Required to be Categorized							
Commingled Equity Index Funds	26,510,262						
Short Term Investment Funds	17,618,001						
Total Investments Not Categorized	44,128,263						
Total Investments	$ 107,714,408						

Schedule 2: Additional Credit Rating Disclosures

Moody's Equivalent Credit Rating	Commingled Intermediate Credit Market Value
Aaa	$ 3,166,102
Aa1	1,295,957
Aa2	1,057,033
Aa3	3,891,615
A1	8,938,712
A2	8,977,122
A3	9,110,265
Baa1	8,531,902
Baa2	10,902,051
Baa3	7,067,488
Ba1 and Lower	647,898
Total Fair Value	$ 63,586,145

Schedule 3: Foreign Currency Exposure

Foreign Currency Denomination	Equity Securities	Percent of Total Investments
AUSTRALIAN DOLLAR	$ 520,863	0.5%
CANADIAN DOLLAR	740,209	0.7%
SWISS FRANC	721,551	0.7%
EURO CURRENCY	2,286,889	2.1%
POUND STERLING	1,077,523	1.0%
HONG KONG DOLLAR	939,739	0.9%
INDIAN RUPEE	263,596	0.2%
JAPANESE YEN	1,954,820	1.8%
SOUTH KOREAN WON	384,268	0.4%
SWEDISH KRONA	265,955	0.2%
NEW TAIWAN DOLLAR	424,492	0.4%
OTHER MISCELLANEOUS CURRENCIES	1,369,279	1.3%
Total Foreign Currency Exposure	$ 10,949,184	10.2%

EideBailly

CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Members of the Washington State Investment Board

Olympia, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Washington State Opportunity Scholarship Fund as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Washington State Opportunity Scholarship Fund's financial statements, and have issued our report thereon dated September 25, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Washington State Opportunity Scholarship Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Washington State Opportunity Scholarship Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Washington State Opportunity Scholarship Fund's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Washington State Opportunity Scholarship Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Washington State Opportunity Scholarship Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Washington State Opportunity Scholarship Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Boise, Idaho
September 25, 2020

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, 2020, 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.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net investment position of the Daily Valued Funds as of June 30, 2020, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2020 on our consideration of the Daily Valued Funds' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Daily Valued Funds' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Daily Valued Funds' internal control over financial reporting and compliance.

Eide Bailly LLP

Boise, Idaho
September 25, 2020

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, 2020. 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, 2020. The following table compares the net investment position of each major investment classification at June 30, 2020, with those at June 30, 2019. In addition, the table summarizes the changes in each major investment classification for the fiscal year, and it compares 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 DVF financial statements.

As shown in the following table, the net investment position of the DVF increased by $563.0 million during the fiscal year ended June 30, 2020. Net contributions to the DVF by participants during the year increased net investment position by $360.0 million. Net investment income of $203.0 million increased the net investment position of the DVF over the previous year.

Summarized Change in Net Investment Position and Returns by Asset Class

	Fiscal Year End June 30, 2020				Fiscal Year End June 30, 2019				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 (**)	$ 1,848,399,822	$ 887,842,706	$ 367,234,733	$ 3,103,477,261	$ 1,675,506,073	$ 864,163,260	$ 334,312,596	$ 2,873,981,929	$ 229,495,332	8.0%
Investment Income:										
Interest, Dividends, and Other Investment Income	63,622,447	22,814,770	2,165,173	88,602,390	55,603,409	21,618,854	2,110,590	79,332,853	9,269,537	11.7%
Realized and Unrealized Gains	87,828,532	2,408	27,175,225	115,006,165	86,310,436	2,056	14,926,421	101,238,913	13,767,252	13.6%
Less: Investment Expenses	(258,692)	(222,109)	(120,551)	(601,352)	(280,091)	(222,561)	(84,559)	(587,211)	14,141	2.4%
Net Investment Income	151,192,287	22,595,069	29,219,847	203,007,203	141,633,754	21,398,349	16,952,452	179,984,555	23,022,648	12.8%
Net Amount Contributed (Withdrawn)	313,912,245	60,276,456	(14,216,592)	359,972,109	31,259,995	2,281,097	15,969,685	49,510,777	310,461,332	627.1%
Ending Net Investment Position (**)	**$ 2,313,504,354**	**$ 970,714,231**	**$ 382,237,988**	**$ 3,666,456,573**	**$ 1,848,399,822**	**$ 887,842,706**	**$ 367,234,733**	**$ 3,103,477,261**	**$ 562,979,312**	**18.1%**

	Bond Fund (*)	Savings Pool (*)	TIPS Fund (*)	Total
Increase (Decrease) in Net Investment Position	**$ 465,104,532**	**$ 82,871,525**	**$ 15,003,255**	**$ 562,979,312**
Percent Change in Net Investment Position	**25.2%**	**9.3%**	**4.1%**	**18.1%**
One Year Time Weighted Return - June 30, 2020	**7.7%**	**2.5%**	**8.6%**	**NA**
One Year Time Weighted Return - June 30, 2019	**8.5%**	**2.5%**	**4.9%**	**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

Net investment income increased by 12.8 percent from the previous fiscal year, mainly from increases in net realized and unrealized gains within the Treasury Inflation Protected Security (TIPS) Fund and an increase in interest income in the Daily Valued Bond Fund (Bond Fund). The TIPS Fund's returns were significantly higher compared to the previous fiscal year, and the resulting increase in realized and unrealized gains of $12.2 million drove a large portion of the net investment income increase. Despite a declining interest rate environment, additional capital of $313.9 million was reinvested in the Bond Fund and contributed to an increase in interest income of $8.0 million from the previous fiscal year. The Savings Pool returns remained relatively unchanged over the fiscal year. As Guaranteed Insurance Contracts (GICs) matured, the WSIB reinvested the proceeds in securities with similar interest rates. Approximately $84.5 million of GICs matured during the current fiscal year, with interest rates ranging from 1.6 to 2.2 percent. Proceeds from these maturities were reinvested in similar interest rate contracts, with interest rates ranging from 1.9 to 2.5 percent.

Performance of the Bond Fund for the fiscal year ended June 30, 2020, was 7.7 percent, which substantially outperformed its benchmark, the Bloomberg Barclays U.S. Intermediate Credit Index, of 7.0 percent. During the current fiscal year, interest rates fell substantially causing bond prices to increase, which positively impacted overall bond market returns. Credit spreads widened during the current fiscal year, causing the returns to be slightly lower than the previous year. A combination of factors contributed to the Bond Fund's outperformance of its benchmark, including security selection, industry allocation within credit bonds, and the maturity profile of the fund compared to the benchmark. Performance for the TIPS Fund was 8.6 percent for the year, which outperformed its benchmark return, the Bloomberg Barclays U.S. Treasury Inflation Protected Securities Index, of 8.3 percent. The significant decrease in interest rates over the fiscal year was the sole contributor to the increase in returns of the TIPS Fund compared to the prior fiscal year.

The fiscal year began with the global economy in a continued slowdown. The U.S. Federal Reserve (Fed) eased interest three times during the first half of the fiscal year by a combined total of 75 basis points. With easing monetary policy in both the U.S. and Europe, economic activity picked up steam in the second quarter of Fiscal Year 2020. Positive employment numbers were reported and trade tensions with China eased as phase one of a new trade agreement was signed. The United Kingdom (U.K.) finally agreed on a Brexit strategy, which helped ease equity market tensions. With several distractions seemingly addressed, global equity markets experienced excellent returns during the second quarter of the fiscal year.

The third quarter of fiscal year through mid-February continued to perform well with global investors reacting positively to the massive economic stimulus in the system, robust employment numbers, and positive calendar year fourth quarter 2019 corporate earnings. The S&P 500 Index reached an all-time high on February 19, 2020. During the last few weeks in February, the focus of global investors turned to the coronavirus (COVID-19) outbreak. The fears of the economic impact of a global pandemic, both in the near and long term, sent developed countries' government bond yields lower and equity markets tumbling. Global equity markets continued to fall sharply with the majority of the decline occurring in March.

Corporate credit spreads widened dramatically during the third quarter of the fiscal year, paralleling the drop in global equity markets. The Bloomberg Barclays U.S. Corporate High Yield Index credit spreads widened an astonishing 544 basis points, ending the quarter at 880 basis points. Investment Grade bonds performed better by widening 179 basis points, ending the quarter at 272 basis points. Corporate credit spreads widened to levels not seen since May 2009, where record highs were set during the Global Financial Crisis. Faced with an extraordinary economic shutdown, the U.S. Federal Reserve lowered the federal funds rate by 150 basis points in March, to 0.25 percent.

DAILY VALUED FUNDS

Early in the fourth quarter of the fiscal year, the U.S. Federal Reserve restarted and expanded asset purchase programs, stating they would purchase as many government bonds as necessary to stabilize the liquidity of the government market. In addition, a credit purchase program was implemented to provide financial assistance to corporate borrowers. The U.S. Congress approved a record stimulus package, including extended jobless benefits along with small business loans. The stimulus package was estimated to be worth roughly 10 percent of Gross Domestic Product (GDP). Later in the fourth quarter of the fiscal year, the Fed announced they would buy investment grade and high yield bonds, along with exchange traded funds (ETFs). These announcements led to large rallies in both high yield and investment grade bonds. The Fed voted unanimously to keep the Fed Funds target rate unchanged in the 0 percent to 0.25 percent range. Credit spreads rallied along with global equity markets in response to these events.

As economies started to reopen following the closures caused by the COVID-19 pandemic, economic data showed signs of a sharp rebound. The Fiscal Year 2020 ended with a very strong quarter for global equities and credit markets, as central banks and governments continued to provide enormous amounts of stimulus. High yield spreads narrowed 254 basis points to end the fiscal year at 626 basis points, while investment grade spreads narrowed 122 basis points to end at 150 basis points. With interest rates unchanged and credit spreads narrower, there was a wide dispersion of returns between various sectors in fixed income. The 10-year U.S. Treasury rate declined a total of 135 basis points during Fiscal Year 2020, with the majority of decline occurring in March.

Net contributions and withdrawals from the DVF increased $310.5 million during the current fiscal year as compared to the prior fiscal year. Net contributions to the Bond Fund increased $282.7 million over the previous year, which represents the majority of this year over year change. In the current fiscal year, the Guaranteed Education Tuition (GET) Fund, a participant in the Bond Fund, contributed $299.0 million as a result of an asset allocation rebalance. The GET Fund asset allocation policies were changed, which increased the fixed income allocation by 20 percent. Equity investments were sold and reinvested in the Bond Fund as a result. See the GET Fund audited financial statements for additional information.

All three DVFs 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.

Investment related receivables and payables are reflected in each asset class's net investment position. These include investments purchased and sold pending settlement over year end, income receivables, and expenses payable. 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 and interest rate changes each year.

Securities on Loan and Collateral Held Under Securities Lending Agreements: During the current fiscal year, the Washington State Investment Board decided, after a thorough review, to discontinue lending of U.S. Treasuries in all fixed income portfolios. The new securities lending policy is effective July 1, 2020. The Washington State Investment Board coordinated with our securities lending agent during the spring and early summer of 2020 to raise liquidity in the cash collateral pool. All U.S. Treasuries were returned from borrowers by June 30, 2020 and, accordingly, there were no securities on loan or cash collateral held under securities lending agreements as of fiscal year end.

Daily Valued Funds (DVF) Statement of Net Investment Position - June 30, 2020

See notes to financial statements

	Bond Fund	Savings Pool	TIPS Fund	Total	Percent of Total
ASSETS					
Investments					
CASH AND CASH EQUIVALENTS	$ 21,133,310	$ 127,395,952	$ 7,664,990	$ 156,194,252	4.3%
DEBT SECURITIES					
Corporate Bonds	2,046,029,958	-	-	2,046,029,958	
U.S. Government and Agency Securities	-	-	373,834,246	373,834,246	
Guaranteed Insurance Contracts	-	843,298,692	-	843,298,692	
Foreign Government and Agencies	243,652,536	-	-	243,652,536	
Total Debt Securities	2,289,682,494	843,298,692	373,834,246	3,506,815,432	95.7%
Total Investments	2,310,815,804	970,694,644	381,499,236	3,663,009,684	100.0%
Investment Earnings Receivable	17,685,764	30,883	738,752	18,455,399	
Total Assets	2,328,501,568	970,725,527	382,237,988	3,681,465,083	
LIABILITIES					
Accounts Payable	24,064	11,296	-	35,360	
Payable for Investments Purchased	14,973,150	-	-	14,973,150	
Total Liabilities	14,997,214	11,296	-	15,008,510	
NET INVESTMENT POSITION	$ 2,313,504,354	$ 970,714,231	$ 382,237,988	$ 3,666,456,573	

Daily Valued Funds (DVF) Statement of Changes in Net Investment Position - Year Ended June 30, 2020

See notes to financial statements

	Bond Fund	Savings Pool	TIPS Fund	Total
Net Investment Income				
Investment Income:				
Interest, Dividends and Other Investment Income	$ 63,622,447	$ 22,814,770	$ 2,165,173	$ 88,602,390
Net Realized and Unrealized Gains	87,828,532	2,408	27,175,225	115,006,165
Less: Investment Expenses	(258,692)	(222,109)	(120,551)	(601,352)
Net Investment Income	151,192,287	22,595,069	29,219,847	203,007,203
Net Amount Contributed (Withdrawn)	313,912,245	60,276,456	(14,216,592)	359,972,109
Increase in Net Investment Position	465,104,532	82,871,525	15,003,255	562,979,312
Net Investment Position - June 30, 2019	1,848,399,822	887,842,706	367,234,733	3,103,477,261
Net Investment Position - June 30, 2020	$ 2,313,504,354	$ 970,714,231	$ 382,237,988	$ 3,666,456,573

Notes to Financial Statements

Note 1. Description of Funds and Significant Accounting Policies

Description of Funds

The Daily Valued Funds (DVF) of Washington State consist of three commingled investment options managed exclusively by WSIB staff. All three investment options are valued daily at fair value or at 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	13.1%	99.8%	N/A
Judicial Retirement Account	Trace	0.2%	N/A
Washington State Retirement System Defined Contribution Participants	20.6%	N/A	N/A
Developmental Disabilities Endowment Trust Fund	0.4%	N/A	N/A
Guaranteed Education Tuition Program	37.8%	N/A	N/A
Washington State Opportunity Scholarship Fund	2.7%	N/A	N/A
Alliance Bernstein Retirement Strategy Funds	25.4%	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 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 and are comprised of short-term investment funds, which are valued at cost. Accordingly, these investments are excluded from the fair value schedule to the basic financial statements found in Note 5.

Valuation of Investments

All investments are reported at fair value, with the exception of 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.

Securities Lending

The collateral received under securities lending agreements, where the DVF 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 DVF during Fiscal Year 2020 was $110,829. Securities lending expenses during the fiscal year totaled $97,282. As of June 30, 2020, the DVF had no securities on loan.

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, 2020, investment securities 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. The Bond Fund may temporarily exceed the duration target for changes in market interest rates, asset allocation rebalancing to policy targets, or significant stakeholder cash flows until rebalancing to duration targets can be achieved without financial harm to the portfolio. Increases in prevailing interest rates generally translate into decreases in fair values of fixed income investments. The durations of securities in the TIPS Fund shall not exceed plus or minus 15 percent of the Bloomberg Barclays U.S. Treasury Inflation Protected Securities Index, other than during short periods of time as described previously.

Schedules 1 and 2 provide information about the interest rate risks associated with the DVF investments as of June 30, 2020. 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, 2020, 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 that 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, 2020.

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 existed at June 30, 2020, 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 (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.

Debt securities were loaned during the fiscal year 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. As of June 30, 2020, the DVF had no securities on loan and, accordingly, no collateral was held.

During Fiscal Year 2020, securities lending transactions could be terminated on demand by either the DVF or the borrower. 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 during the current fiscal year, 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 2020, 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 2020, the DVFs 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 DVFs default 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 WSIB 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. Any third-party valuations are reviewed for reasonableness and compliance with relevant accounting standards.

The DVFs receive fair value prices for debt securities directly from their custodian bank, State Street Corporation. 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, 2020:

		Fair Value Measurements Using:		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
INVESTMENTS				
DEBT SECURITIES				
Corporate Bonds	$ 2,046,029,958	$ -	$ 2,046,029,958	$ -
U.S. and Foreign Government and Agency Securities	617,486,782	-	617,486,782	-
Total Debt Securities	$ 2,663,516,740	$ -	$ 2,663,516,740	$ -
Total Investments Measured at Fair Value	$ 2,663,516,740			

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.

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. If the duration is outside the range due to changes in market interest rates, or due to rebalancing, or due to managing stakeholder cashflows, the portfolio may remain outside the guidelines until it can be rectified without harming the portfolio. 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 of principal, 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 the following: 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 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.

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	$ 2,046,029,958	$ 95,441,596	$ 1,102,093,267	$ 827,400,330	$ 21,094,765	5.1	Schedule 2
U.S. Government and Agency Securities	373,834,246	-	167,258,995	136,074,800	70,500,451	8.9	Aaa
Guaranteed Insurance Contracts	843,298,692	193,491,500	649,807,192	-	-	N/A	Not Rated
Foreign Government and Agencies	243,652,536	20,098,173	132,387,380	91,166,983	-	5.0	Schedule 2
	3,506,815,432	$ 309,031,269	$ 2,051,546,834	$ 1,054,642,113	$ 91,595,216		
Investments Not Required to be Categorized							
Cash and Cash Equivalents	156,194,252						
Total Investments Not Categorized	156,194,252						
Total Investments	$ 3,663,009,684						

* Excludes cash and cash equivalents

Schedule 2: Additional Credit Rating Disclosures

Moody's Equivalent Credit Rating	Corporate Bonds	Foreign Government and Agency Securities
Aaa	$ 80,482,693	$ 33,525,882
Aa1	21,639,708	25,026,590
Aa2	32,391,075	5,671,745
Aa3	96,893,946	43,239,788
A1	242,054,765	79,820,591
A2	323,258,462	-
A3	328,052,850	-
Baa1	307,226,472	-
Baa2	366,222,922	26,350,588
Baa3	224,476,834	30,017,352
Ba1 or Lower	23,330,231	-
Total	$ 2,046,029,958	$ 243,652,536

CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Members of the Washington State Investment Board

Olympia, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Daily Valued Funds as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Daily Valued Funds' financial statements, and have issued our report thereon dated September 25, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Daily Valued Funds' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Daily Valued Funds' internal control. Accordingly, we do not express an opinion on the effectiveness of the Daily Valued Funds' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Daily Valued Funds' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Daily Valued Funds' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Daily Valued Funds' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Boise, Idaho
September 25, 2020

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