



WASHINGTON STATE INVESTMENT BOARD

40TH ANNUAL REPORT

2021

INTRODUCTION

Letter of Transmittal (3)

Message from the Chair (4)

Board Members & Committees (5)

Executive Management (6)

Commingled Trust Fund (CTF) Partners & Fund Managers (7)

Asset Stewardship, ESG Integration, & Advocacy (9)

Annual Budget (10)

LETTER OF TRANSMITTAL



The journey toward an economic recovery is rarely neat and tidy. The investment marketplace is not always a linear or logical place. Never has this been truer than during Fiscal Year (FY) 2021.

Investors and our global citizenry have experienced no shortage of confounding factors – a global pandemic with a stubborn streak, a contentious U.S. presidential election, an economic freeze followed by a mix of resurgence and business failures, remote work and changing workplace cultures, racial and social unrest amid a backdrop of populist passions and public health anxieties. Everything from getting our kids back into schools to getting U.S. armed forces out of Afghanistan seems to generate hot debate at every turn.

We are living in a time when the questions seem to outnumber the answers. Investment strategies are further confounded by the juxtaposition of low interest rates, buoyant stock market returns (global equities returned 40.0 percent during the 12 months ending June 30, 2021) and lower assumed rates of return for the long term looking forward. For the fiscal year ending June 30, 2021, our Commingled Trust Fund (CTF) posted performance of 28.7 percent, which will allow a beneficial smoothing effect for our retirement plans in the years ahead.

In an environment of glaring contrasts, each of us is being tested for our ability to manage change, to adapt to new risks, and to seize upon opportunity. At the Washington State Investment Board (WSIB) we are approaching these uncertainties with three core commitments:

- Continuity comes first because it's the bedrock. Our mission – maximizing investment performance at prudent levels of risk, solely for our beneficiaries – remains steadfast and relevant. Our investment process and its ties to long-term outcomes remains unchanged, even as we enhance the data, research, and due diligence within the process. We continue to test every investment decision against our mission and our resolve to serve the long-term investment interests of those who rely on our performance.
- Focus is next because it fuels the work at hand. Staying focused becomes increasingly important as market noise and potential distractions grow louder. Staying focused allows us to build the investments and relationships that have resulted in top-tier performance among our peers. We also are broadening and refining our focus to address factors such as climate change, diversity, and other environmental, social and governance (ESG) issues that ultimately can affect investment strengths and weaknesses.
- Learning also is vital because we must equip ourselves more for tomorrow than yesterday. We recently updated our core Investment Beliefs and our long-range investment assumptions – all with an eye for the upcoming decades, not just the upcoming years. Our leadership also is listening and learning as I plan to join the ranks of our retiree beneficiaries as of year-end 2021. In January, I will transfer WSIB's leadership seat to Allyson Tucker, who our Board and the state's Finance Committee has unanimously confirmed as the WSIB's new Chief Executive Officer. After exemplary service at the WSIB for 11 years, including more than two years as Chief Investment Officer, Allyson will bring our agency capable and complete leadership – an equal measure of continuity, focus and continual learning.

For me personally, the WSIB and our investment programs are an unparalleled source of gratification and the culmination of a long and rewarding career. More importantly, for our stakeholders and beneficiaries, the WSIB stands fully equipped, disciplined, and committed to serving their investment interests for many decades to come.

Sincerely,
Theresa Whitmarsh, Chief Executive Officer

MESSAGE FROM THE CHAIR



I'm pleased to present the Washington State Investment Board's (WSIB) Annual Report for the fiscal year ending June 30, 2021. As chair of the WSIB, it's an honor to provide this concise summary of our investment approach and results. It's our duty to pursue the best possible investment results while carefully considering all forms of risk. Fortunately, our board is well equipped with diverse members with different backgrounds, disciplines, and perspectives – all of which serve our beneficiaries well.

The past fiscal year has been like no other, rife with uncertainty and mixed financial signs. Amid a global pandemic and at times a stifling economic shutdown, we saw unprecedented monetary policy and a wave of

remarkable fiscal stimuli. Amid a backdrop of exceedingly low interest rates, we saw an exceedingly bullish global stock market and an unexpected ascent in public equity prices.

Meanwhile, more people than ever were working from home and using virtual systems while business travel was essentially grounded as we looked for ways to slow the pandemic and protect each other.

At the same time, our Board took on the vital task of succession planning for new leadership at the WSIB. We're thrilled that our existing Chief Investment Officer, Allyson Tucker, will take the top leadership role at the WSIB in January 2022 after Theresa Whitmarsh transitions to a well-earned and much-deserved retirement.

Our investment capabilities and our process for managing public trust funds remained intact and unwavering during the all the tests of the past year. Our investment performance for the fiscal year (returned 28.7 percent) and since inception (returned 9.2 percent) will help ease the burden of contribution costs for state agencies, taxpayers, and state lawmakers. The focus and resilience of our staff and our investment partners and managers allowed this agency to stay on track with its strategy and respond to the shifting demands of the marketplace.

As of the end of Fiscal Year 2021, the WSIB is managing \$181.0 billion in total assets, including more than \$142.5 billion in the CTF for retirement plans. Today, our state's retirement system is one of the top five nationwide when comparing funding levels because we've been careful when setting both performance assumptions and contribution policies.

Our board also has enhanced its asset stewardship efforts during the past year, especially related to climate change and diversity, equity, and inclusion. These ESG issues clearly intersect materially with investment risk and returns, and we're working carefully to account for these inflection points. Our goal is to ensure that diligent investment discipline includes careful analysis of all forms of risk and opportunity, even as new aspects of these ESG issues reveal themselves to the marketplace and our society.

Our board will continue to work closely with staff to ensure a longstanding, strategic, and sustainable investment program that serves the vital interests of all those we serve.

Sincerely,
Joel Sacks, Chair

BOARD MEMBERS & 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.



Treasurer
Mike Pellicciotti



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

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 oversight of the corporate governance framework and associated policies, as well as the WSIB's ethics 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.

EXECUTIVE MANAGEMENT

Theresa J. Whitmarsh

Chief Executive Officer

The WSIB's Chief Executive Officer 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

The Chief Investment Officer 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 Chief Investment Officer 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

The Chief Financial Officer 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 Chief Financial Officer 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.

CTF PARTNERS & FUND MANAGERS

Private Equity Partners

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

Real Estate Partners

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

CTF PARTNERS & FUND MANAGERS

Tangibles Partners

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

Public Equity Fund Managers

Arrowstreet Capital, L.P.	LSV Asset Management	State Street Global Advisors
BlackRock Institutional Trust Co.	Magellan Asset Mgmt. Ltd.	TT International
Brandes Investment Partners	Mondrian Investment Partners Ltd	William Blair & Co.
GQG Partners LLC	Sands	

Innovation Fund Managers

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

Overlay Manager

State Street Global Advisors

ASSET STEWARDSHIP, ESG INTEGRATION, & ADVOCACY

To fulfill this responsibility, the WSIB relies on global diversification, long-term strategies, and rigorous research disciplines. The WSIB also evaluates an evolving range of environmental, social and governance (ESG) issues, and expects our investment partners and the companies in which we invest to meet high standards in their management of ESG issues. To this end, the WSIB employs three vital ESG programs.

Asset Stewardship

The WSIB's asset stewardship efforts include the core corporate governance practices of proxy voting, engagement with investee companies, and collective involvement with a select number of compatible industry groups and peers. Collectively, these initiatives reflect the WSIB's focus on the responsible safekeeping of assets. The WSIB believes a strong, focused corporate governance program is the cornerstone of asset stewardship. Through its corporate governance program, the WSIB works to enhance shareowner value and strives to fulfill long-term investment objectives 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 select industry bodies as a powerful asset stewardship tool.

Highlights

- Since Fiscal Year 2019, the WSIB has incrementally updated the diversity-related policies in its Global Proxy Voting Policy and Guidelines. At its April 2021 meeting, our Board agreed that the WSIB will vote against the chair of any company's nominating committee when there are no women on the board, and will vote similarly with larger listed companies when boards have fewer than two women on the board. The policy also was updated to reflect a focus on broader diversity on boards, including race and ethnicity.
- The WSIB also recently enhanced its engagement activities with investee companies 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).
- A summary of the WSIB's proxy voting activity and outcomes is posted on the Asset Stewardship section of our website.

ESG Integration

As with traditional financial factors, the ESG-related drivers of risk and return vary by asset class. Therefore, each of the WSIB's asset class teams is responsible for ensuring that their own investment process adequately addresses financially material ESG risks and opportunities. While the WSIB's investment teams maintain some autonomy over how they consider ESG issues, teams also share best practices in ESG integration across asset classes to benefit the WSIB as a whole. In early 2020 the WSIB created an ESG Working Group comprised of one member of every asset class team and other staff considered critical to the WSIB's ESG integration efforts.

Highlights

- The ESG Working Group met monthly to discuss best practices, new developments, and reports from the various asset classes about how ESG is factoring into their processes.
- The WSIB reviewed and updated its Defined Benefit Retirement Funds Investment Beliefs. A key update was the carveout of "sustainability" as a distinct belief immediately following the mission of the Fund to maximize returns at a prudent level of risk over a long-term time horizon (i.e., 15+ years).
- The WSIB increased its focus on ESG risks and opportunities during internal Investment Committee meetings as part of the comprehensive review of prospective new investments.

Advocacy

The WSIB works actively to advocate for industry rules that promote fair and functioning markets and encourage long-term investment disciplines. By lending its voice to these efforts, the WSIB positively impacts investment results for its beneficiaries.

Throughout FY 2021 the WSIB actively engaged in submitting letters to the SEC and other credible entities supporting climate change initiatives, diversity, and improved proxy voting processes.

Highlights

- In December 2020 the WSIB submitted a letter of support to NASDAQ's Proposed Rule Change to Adopt Listings Rules Related to Board Diversity.
- In June 2021 the WSIB submitted a letter to the SEC as input on proposed climate change disclosures for public companies. It emphasized the need for consistent, comparable climate-related data, primarily drawing from the voluntary sustainability reporting standards and frameworks that currently exist.
- Additional advocacy letters were submitted throughout the fiscal year as public records and are available upon request.

ANNUAL BUDGET

OBJECTS OF EXPENDITURE

APPROPRIATED

	Budget	Expenditures	Budget Variance
Salaries	\$ 18,689,292	\$ 17,628,816	\$ 1,060,476
Benefits	5,131,136	4,634,386	496,750
Professional Service Contracts	2,294,648	904,063	1,390,585
Goods and Services	5,780,541	4,265,661	1,514,880
Travel	1,058,993	-	1,058,993
Equipment	299,324	286,415	12,909
Treasury Note	119,461	117,693	1,768
Subtotal Appropriated	\$ 33,373,395	\$ 27,837,035	\$ 5,536,360

NON-APPROPRIATED

	Budget	Expenditures	Budget Variance
Public Equity	\$ 67,336,000	\$ 67,951,508	\$ (615,508)
Private Equity	462,000,000	376,255,144	85,744,856
Real Estate	51,333,000	22,382,655	28,950,345
Tangible Assets	108,508,000	72,452,342	36,055,658
Innovation Portfolio	19,550,000	10,147,275	9,402,725
Securities Lending	7,111,000	2,384,229	4,726,771
Cash Management	4,093,000	5,023,719	(930,719)
Cash Overlay	900,000	732,608	167,392
General Consultants	1,015,000	519,626	495,374
Staff Consultants and Contractual Services	4,264,000	2,619,554	1,644,446
Legal Fees	3,000,000	1,342,795	1,657,205
Custodian Bank Fees & Trade Settlement Services	3,020,000	1,580,000	1,440,000
Portfolio Verification & Shadow Accounting System	1,000,000	690,329	309,671
Memberships	252,000	191,619	60,381
Research Services, Analytical Tools, and Other	4,026,000	3,537,880	488,120
Subtotal Non-Appropriated	737,408,000	567,811,281	169,596,719
TOTAL	\$ 770,781,395	\$ 595,648,316	\$ 175,133,079



INVESTMENTS

CTF Investment Summary of the Last Year (12)
Other Funds 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. Retirement Funds also account for a small portion of plan-specific investments that are invested separately. Over the past year, Retirement Funds has grown from \$114.5 billion to \$149.8 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 CTF 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 CTF 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 bonds, and securitized bonds. The fixed income program for the Retirement Funds 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 0.7 percent. It was flat through the summer but increased through the fall and ended in December 2020 at 0.9 percent. The yield rose through the first quarter landing at 1.7 percent on March 31, only to reverse course and end the fiscal year at 1.5 percent. The yield was at a low of 0.5 percent on August 4, 2020, and a high of 1.7 percent at the end of March of 2021.

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 \$6.8 billion in purchases and \$3.0 billion in sales.
- During the fiscal year, \$1.6 billion in cash was transferred to fixed income from 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 effects of the pandemic slowed the pace of investment with the WSIB only approving 6 new commitments totaling \$1.4 billion.
- \$1.2 billion of committed capital was drawn during the year, the lowest since Fiscal Year 2017.
- \$429.2 million in distributions were returned to the WSIB, less than half of what was distributed in Fiscal Year 2020.
- The portfolio has a target allocation of 7.0 percent and was 5.5 percent of the CTF on June 30, 2021.

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. This continued to be the case during the pandemic, as most properties owned by the WSIB showed resilience in the face of a challenging economic environment. The importance of having a long-term investment horizon is evident in the attractive returns for the real estate portfolio over long periods and through multiple economic cycles. One of 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

- Two commitments totaling \$1.0 billion were made.
- \$2.1 billion of capital was drawn down for investments.
- \$2.0 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 status of globalization is uncertain at this time, 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.

The past fiscal year saw strong equity returns. Global equity returns, represented by the Morgan Stanley Capital International (MSCI) All Country World (ACWI) Investable Market Index (IMI) with U.S. Gross, increased by 8.2 percent in the first quarter, 15.8 percent in the second, 5.2 percent in the third and 7.2 percent in the fourth; resulting in a gain of 41.3 percent during the fiscal year. Drivers include the release of COVID vaccines which resulted in the relaxation of shelter in place restrictions and the re-opening of many businesses, massive fiscal stimuli, and accommodative reserve bank actions across the globe. The U.S., the Non-U.S. Developed and Emerging Markets equities followed the same trajectory returning 44.4 percent, 34.8 percent, and 43.2 percent respectively over the last fiscal year.

U.S. equity markets, represented by the MSCI U.S. IMI, outperformed both the Non-U.S. Developed and Emerging Markets for the fiscal year. The U.S. equity program essentially matched the performance of the index, returning 44.3 percent over the last fiscal year as the program is passively invested.

For international markets, both the Non-U.S. Developed and Emerging Markets equity programs outperformed their benchmarks. For the Non-U.S. Developed markets, the outperformance was primarily driven by the passive manager's ability to reclaim withholding taxes on foreign dividends. For Emerging Markets, the portfolio of active managers outperformed which is largely attributed to stock selection and some style tailwinds during the period.

Highlights

- Over the fiscal year, the overall Public Equity program was slightly behind its benchmark, the MSCI ACWI IMI with U.S. Gross, returning 41.2 percent for the year.
- The Non-U.S. Developed and Emerging Markets composite returns exceeded their respective benchmarks and the U.S. composite largely matched the index returns.
- The WSIB's active global composite struggled to keep pace with the strong, double digit returns posted over the fiscal year. Consistent with the goals for the program, this portfolio is positioned to provide downside protection and participate on the upside when markets post strong positive returns.
- In a year where the market returns 41.3 percent, a portfolio with downside protection in mind is expected to keep up but some slight underperformance is within reason. Over longer periods, which include years of returns, the portfolio has added value for the WSIB.

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, 2021, the private equity portfolio was valued at \$41.5 billion, or 27.8 percent of the CTF, compared with \$26.2 billion and 22.9 percent at the previous fiscal year-end. The portfolio's increase in value from the prior year is due to appreciation in the value of portfolio investments, as capital contributions into the portfolio were exceeded by distributions received from portfolio liquidity events during the fiscal year.

During the fiscal year, the WSIB closed on \$7.3 billion of new commitments across 21 private equity funds, a significant increase from the \$4.1 billion of new commitments closed during the prior year across 13 funds. Capital contributed for investment and expenses was also higher than that of the previous fiscal year, increasing by approximately \$1.5 billion. Distributions received from portfolio company liquidations were also significantly higher than in the prior fiscal year, increasing by approximately \$2.0 billion.

During the first half of FY 2021, the strong rebound in the public equity markets that followed a brief disruption induced by the COVID-19 pandemic carried over to the private equity industry, resulting in feverish fundraising and investment activity through the second half of FY 2021. During the last twelve months, we have witnessed the fastest global economic recovery since the 1980's, driven by vaccination programs and massive, ongoing fiscal and monetary stimulus. As the U.S. Federal Reserve's accommodative policy persisted, low interest rates and ample supply of credit continued to provide a favorable environment for financing acquisitions, leading to a sharp acceleration in deployment by general partners. Meanwhile, portfolios across the private equity landscape posted double digit value appreciation in nearly each quarter of the fiscal year, driven by blistering performance in the technology and health care sectors, which turned out to benefit from trends resulting from the pandemic such as remote work and health protection awareness. Other sectors, like conventional energy or some consumer segments continued being challenged. Overall, by historical standards, equity valuations now look highly elevated on a forward earnings multiple basis, which poses a risk of correction should the current bout of inflationary pressure prove not to be transitory.

Highlights

- \$7.3 billion in new commitments to funds were closed during FY 2021, compared to \$4.1 billion closed in FY 2020.
- \$6.4 billion of capital was contributed into the portfolio during the fiscal year, compared to \$4.9 billion in the prior year.
- \$6.6 billion in distributions were returned to the CTF in FY 2021 compared to \$4.6 billion distributed in FY 2020.

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 distressed credit and an impact equity fund were approved.

OTHER FUNDS UNDER MANAGEMENT

Defined Contribution Retirement Funds

PERS 3: \$4.5 Billion

SERS 3: \$2.8 Billion

TRS 3: \$12.8 Billion

DCP: \$6.2 Billion

JRA: \$9.6 Million

The WSIB oversees the investment options in Plan 3: Public Employees' Retirement System (PERS), State Employees' 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.

Labor and Industries' (L&I) Funds

\$21.4 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

\$1.3 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

\$1.7 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)

\$102.6 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

\$109.2 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 \$2.5 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 U.S. Intermediate Credit Index.

Savings Pool \$944.6 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 \$484.5 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 (56)

Permanent Funds (78)

Guaranteed Education Tuition Fund (100)

Developmental Disabilities Endowment Trust Fund (123)

Washington State Opportunity Scholarship Fund (143)

Daily Valued Funds (162)

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 Fiduciary Net Investment Position, which reports the assets by general asset category and the related liabilities as of June 30, 2021, and the Statement of Changes in Fiduciary Net Investment Position, which reports the contributions to, withdrawals from, and investment earnings for the fiscal year ending June 30, 2021.

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:

Washington State Investment Board
2100 Evergreen Park Drive SW
PO Box 40916, Olympia, WA 98504-0916

Phone: 360-956-4600

Website: <http://www.sib.wa.gov>

RETIREMENT FUNDS





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 fiduciary net investment position as of June 30, 2021, and the related statement of changes in fiduciary 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

What inspires you, inspires us. Let's talk. | eidebailly.com

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

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 fiduciary net investment position of the Retirement Funds as of June 30, 2021, and the changes in fiduciary net investment position for the year then ended in conformity 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 \$73.7 billion (49.0% of total investments) as of June 30, 2021, 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 a report dated September 28, 2021, 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.



Boise, Idaho
September 28, 2021

What inspires you, inspires us. Let's talk. | eidebailly.com

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

Management Discussion and Analysis

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

The financial statements and footnotes follow this section of the report. The Statement of Fiduciary Net Investment Position provides information on the types of investments, assets, and liabilities of the Retirement Funds as of June 30, 2021. The Statement of Changes in Fiduciary Net Investment Position provides information on investment performance and other increases and decreases in the fiduciary net investment position of the Retirement Funds for the year ended June 30, 2021. The following table compares the fiduciary net investment position of each major investment classification at June 30, 2021, with those at June 30, 2020. 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.

General Market Commentary

The fiscal year began with the global economy amid a second wave of outbreaks related to the coronavirus (COVID-19) pandemic. The U.S. experienced steady declines in infection rates, while Europe experienced an increase. The significant progress towards a vaccine in the fall contributed to strong first fiscal quarter results in the global equity markets. Monetary policy goals of the U.S. Federal Reserve (Fed) are to foster economic conditions that achieve both stable prices and maximum sustainable employment. To achieve these goals, the Fed announced they were shifting from a set to an average inflation target. This allowed inflation to temporarily exceed the established set inflation targets.

Global equity markets continued to rally in the second quarter of the fiscal year. The U.S. election results, combined with the progress of COVID-19 vaccines, helped the more cyclical segments of the market recover. The pandemic took a turn for the worse during this period, with increasing infection rates in Europe and the U.S. in the second quarter topping previous highs. Governments implemented new stringent lockdown measures to slow the spread of COVID-19. The U.S. passed a \$900 billion stimulus package during this quarter, which included a \$600 cash disbursement to qualified individuals, more funding for the Paycheck Protection Program, and a 10-week extension of unemployment benefits. Emerging markets countries outperformed the developed markets in the second quarter, with the Morgan Stanley Capital International (MSCI) Emerging Markets (EM) Investable Market Index (IMI) returning 20.0 percent, and the MSCI Developed World IMI returned 15.1 percent. With global investors in a risk-on mood, the 10-year U.S. Treasury rate increased by 23 basis points during the second quarter of the fiscal year to end at 0.9 percent.

The third quarter of the fiscal year was marked by two key events. One was the Democratic victory in the state of Georgia, which shifted the leadership in the senate, enabling further massive U.S. fiscal stimulus to be enacted. The other major event was the success of the vaccine roll-out. Business surveys improved in March, with manufacturing expanding strongly in both Europe and the U.S. The U.S. service sector continued to perform well, but the most notable improvement was in the United Kingdom (UK) service sector, with businesses noting improvements in consumer confidence and signs of pent-up demand. The

Fed again kept interest rates unchanged and made no major changes to the Fed Bond Buying Program. The goal of this program is to maintain liquidity in the financial markets. Reductions in the amount of bonds purchased by the Fed in the secondary markets could potentially impact quantitative easing, leading to higher interest rates. Despite a lack of direct action from the Fed, U.S. interest rates rose considerably as investors became increasingly concerned about inflation. The 10-year U.S. Treasury rate increased by 83 basis points to end the quarter at 1.7 percent, which marked the highest month-end close since 1.9 percent at the end of December 2019.

The last quarter of the fiscal year ended with global equity markets continuing to rise as vaccination rates accelerated in most developed economies. Leading economic indicators released in June 2021 showed the economy continued to recover. The MSCI World Developed IMI returned a robust 40.6 percent over the fiscal year. The MSCI U.S. IMI returned 43.8 percent, while the MSCI EM IMI trailed close behind, returning 43.2 percent for the fiscal year. The Fed kept their policy rate at 0.25 percent and indicated it would maintain the current pace of bond purchases under the Fed Bond Program until there is substantial progress on the employment and inflation statistics. The 10-year U.S. Treasury rate decreased by 27 basis points during the last quarter to end the fiscal year at 1.5 percent, which is 81 basis points higher than last fiscal year. Credit spreads for both high yield and investment grade bonds declined in tandem with the risk-on mood of global equities. High yield spreads narrowed 42 basis points to end at 268, down 358 basis points over the fiscal year. Investment grade spreads tightened 11 basis points, ending at 80 basis points, narrower by 70 basis points for the fiscal year.

Commingled Trust Fund (CTF) Participant Changes

The retirement plans, or participant funds, invest in the Commingled Trust Fund (CTF), as well as short-term investment funds (STIF), which are included in the “Plan-Specific Investments” in the accompanying financial statements. The CTF has a long-term investment horizon and operates much like a mutual fund. Participants hold units of the CTF which represent their percentage ownership of the net invested balances. Participants also have an individual STIF account used for cash management purposes and is part of the total retirement plans’ net invested balances.

In prior years, the Higher Education Retirement Plan (HERP) Supplemental Benefit Fund contributions were pooled into a solitary fund pursuant to the initial enabling statutes and legislation. In addition, HERP was invested entirely in STIF pending a determination on eligibility to invest as a qualified plan in the CTF. Legislative changes to RCW 28B.10.423 during the current fiscal year required separate accounting for contributions received and invested balances by each higher education institution covered in the HERP legislation. In July 2020, the HERP STIF balances were liquidated, allocated to the seven higher education participant funds, and invested in the CTF. The seven new HERP participant funds are identified in Note 2 and Note 3 of the accompanying financial statements.

The Volunteer Firefighters (VFF) liquidated their ownership in the CTF in October 2020 and transferred the proceeds to STIF for the remainder of the fiscal year. The funds are pending a determination of an appropriate asset allocation strategy to use in the future time periods.

The Schedule of Participation in Note 3 in the accompanying financial statements presents the fiduciary net investment position of each pension plan and the invested balances in both the CTF and STIF.

RETIREMENT FUNDS

As shown in the following table, the fiduciary net investment position of the Retirements Funds increased by \$35,281.0 million during the fiscal year ended June 30, 2021. Net withdrawals from the Retirement Funds during the current fiscal year decreased fiduciary net investment position by \$694.4 million. Net investment income increased fiduciary net investment position by \$35,975.4 million and was reinvested in the various asset classes of the Retirement Funds.

Net investment income increased by \$31,017.3 million during the current fiscal year as compared to the prior year, almost entirely from increases in net realized and unrealized gains. The total current fiscal year return of 28.7 percent increased substantially over the prior year return of 3.7 percent, which resulted in the significant increase in net investment income. Substantial increases in both the public and private equity market returns, as shown in subsequent sections of this report, were the main drivers of the increased overall performance for the current fiscal year. The WSIB audited financial statements include market value adjustments for alternative assets as of June 30, 2021. 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, 2021, which is not reflected in the official published retirement fund performance return of 33.3 percent, is \$6.8 billion.

Net withdrawals by the Department of Retirement System (DRS) increased by \$223.3 million from the previous fiscal year due to increased withdrawal requests. Increased retirement benefit payments and requests for refunds of contributions from terminated members significantly impacted withdrawals. Higher benefit calculations at the time of retirement, increased number of retirements and increased benefits for existing retirees due to cost-of-living adjustment (COLA) were all factors impacting the increase in withdrawals by members. The combined refunds of previously made contributions, annuity payments, and benefit payments from the retirement trust funds increased 9.0 percent during the fiscal year.

Transfers between asset classes are done periodically to fund withdrawal requests by the Retirement Funds and to rebalance the 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 fiduciary 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.

RETIREMENT FUNDS

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

	Fiscal Year End June 30, 2021					Fiscal Year End June 30, 2020					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 Fiduciary 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%
Investment Income:												
Interest, Dividends, and Other Investment Income	4.9	717.7	563.4	1,232.8	2,518.8	30.1	794.3	558.6	1,023.9	2,406.9	111.9	4.6%
Realized and Unrealized Gains (Losses)	200.4	(332.0)	13,743.4	20,512.4	34,124.2	26.6	1,214.8	(16.4)	1,937.9	3,162.9	30,961.3	978.9%
Less: Investment Expenses	(24.2)	(2.5)	(71.4)	(569.5)	(667.6)	(24.4)	(6.7)	(71.0)	(509.6)	(611.7)	55.9	9.1%
Net Investment Income	181.1	383.2	14,235.4	21,175.7	35,975.4	32.3	2,002.4	471.2	2,452.2	4,958.1	31,017.3	625.6%
Net Amount Withdrawn	(694.4)	-	-	-	(694.4)	(471.1)	-	-	-	(471.1)	223.3	47.4%
Transfers Between Asset Classes	(38.4)	1,600.0	(2,621.5)	1,059.9	-	2,203.3	(2,170.0)	(174.9)	141.6	-	NA	NA
Ending Fiduciary Net Investment Position (**)	\$ 2,513.5	\$ 24,715.9	\$ 47,334.6	\$ 75,190.0	\$ 149,754.0	\$ 3,065.2	\$ 22,732.7	\$ 35,720.7	\$ 52,954.4	\$ 114,473.0	\$ 35,281.0	30.8%
Increase (Decrease) in Fiduciary Net Investment Position	\$ (551.7)	\$ 1,983.2	\$ 11,613.9	\$ 22,235.6	\$ 35,281.0							
Percent Change in Fiduciary Net Investment Position	-18.0%	8.7%	32.5%	42.0%	30.8%							
One Year Time Weighted Return - June 30, 2021	0.1%	1.8%	41.2%	33.3%	28.7%							
One Year Time Weighted Return - June 30, 2020	1.3%	9.3%	0.5%	3.1%	3.7%							

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

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

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

- Cash and cash equivalents** include cash held for overall liquidity purposes 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 fiduciary net investment position of the cash and cash equivalents portfolio decreased by \$551.7 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, 2021, net of the returns in the overlay program, were 0.1 percent. The substantial decrease over the prior year return of 1.3 percent coupled with lower invested balances decreased interest income as compared to the prior fiscal year. Short-term rates moved considerably lower during the previous fiscal year by a net of 225 basis points because of Fed actions. The Fed rates remained unchanged during the current fiscal year, but the continued low-rate environment had a negative impact on cash returns. The Fiduciary 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-September 2020, the overlay program was primarily invested in fixed income futures. At that time, the overlay program

began increasing the program's exposure to equity futures, splitting the exposure evenly between the two. By the end of 2020, the exposure had moved to 100 percent fixed income as the global equity markets performed very well and fixed income became the underweight asset class.

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 2.1 percent, with a range of 1.6 percent to 2.9 percent of total fiduciary net investment position. The global equity market returned 41.3 percent, as measured by the MSCI All Country World (ACWI) IMI with U.S. Gross. The fixed income market returned 1.1 percent as measured by the U.S. Bloomberg Barclays U.S. Universal Index for the year ending June 30, 2021. With the robust return in equity markets, coupled with a small positive fixed income return, the overlay program added 11 basis points to the overall return of the CTF for the fiscal year ending June 30, 2021.

- **Debt securities** fiduciary net investment position increased by \$1,983.2 million. Interest income net of investment expenses of \$715.2 million was reinvested in debt securities during the current fiscal year. Net realized and unrealized losses decreased invested balances in this asset class by \$332.0 million, due to a significant decrease in returns over the current fiscal year. Debt securities returned 1.8 percent in the current fiscal year, compared to 9.3 percent in the previous year resulting in realized and unrealized losses during the current fiscal year. Asset allocation rebalancing transfers were done during the year increasing the fiduciary net investment position by \$1,600.0 million to maintain strategic investment targets. The fiduciary net investment position and performance of debt securities includes \$927.0 million of cash balances used for trading purposes.

Performance of the retirement fixed income portfolio was positive for the year at 1.8 percent, outperforming the benchmark return, the Bloomberg Barclays U.S. Universal Bond Index of 1.1 percent. During the current fiscal year, interest rates rose substantially, causing bond prices to decrease, which negatively impacted overall bond market returns. Credit spreads narrowed during the current fiscal year, which partially offset the reduced returns caused by the increasing rate environment. The combination of rising interest rates and the narrowing credit spreads caused the bond market returns to be significantly lower than the previous year, but still resulted in an overall positive return. The outperformance of the portfolio was due in large part to an overweight in emerging market credit in comparison to the benchmark. In addition, an underweight allocation to the U.S. dollar and some negative security selection in Argentinian securities had a positive impact on the total return.

- **Equity securities** fiduciary net investment position increased by \$11,613.9 million from the prior fiscal year. Dividend income net of investment expenses of \$492.0 million was reinvested to equity securities during the current fiscal year. Net realized and unrealized gains increased balances in this asset class by \$13,743.4 million. Asset allocation rebalancing transfers were done during the year and equity sale proceeds totaling \$2,621.5 million were transferred to other portfolios, as shown in the transfers between asset classes in the preceding table. The fiduciary net investment position and performance of equity securities includes \$629.1 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 benchmark for the equity portfolio is the MSCI ACWI IMI, which is a broad barometer of overall market returns. Equity securities returned 41.2 percent during the fiscal year, slightly underperforming the benchmark return of 41.3 percent. Headwinds for the portfolio included significantly elevated market volatility in early spring 2020, as well as a very strong bull market run through the rest of calendar year 2020, where the CTF's public equity portfolio returns are expected

to lag given the downside protection orientation. Over longer periods, this orientation is expected to add value and is evidenced in the trailing 10-year returns of 10.5 percent compared to the benchmark that returned 10.2 percent.

The global equity markets had an incredible year, returning more than 40 percent one year after the onset of the COVID-19 pandemic. At the nadir of the pandemic, global equity markets declined in excess of 30 percent and the global economy entered a deep recession. Unemployment skyrocketed and gross domestic product (GDP) sharply contracted as large sections of the global economy were completely shut down. Unprecedented levels of stimulus and governmental support helped to minimize the impact of the recession on the U.S. economy. Markets were able to recover nearly all the ground lost due to the pandemic by September 2020. By the time news emerged that multiple vaccines had high efficacy against COVID-19 in late 2020, investors began looking through the depressed economic environment and toward an eventual return to normalcy in the quarters ahead. As countries rolled out inoculation programs in early 2021 and economies began to fully reopen, markets closed out the fiscal year at record highs.

- Alternative investments** fiduciary net investment position increased by \$22,235.6 million. Ordinary income distributions net of investment expenses increased this asset class by \$663.3 million. Net realized and unrealized gains increased balances in this asset class by \$20,512.4 million. During the current fiscal year, alternative asset managers called capital and expenses of \$10,253.7 million and made distributions of cash and stock amounting to \$9,193.8 million. Sale proceeds from other asset classes, totaling \$1,059.9 million, were used to fund the remaining capital calls and expenses.

Investment income net of investment expenses increased by \$149.0 million over the previous fiscal year resulting from an increase in income distributions from general partners of \$208.9 million and an increase of management fees and expenses paid of \$59.9 million. Realized and unrealized gains increased by \$18,574.5 million over the previous fiscal year, the result of a significant increase in the portfolio returns over the previous year, as shown in the following table. The WSIB audited financial statements include market value adjustments for alternative assets as of June 30, 2021. 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, 2021, which is not reflected in the official published performance return for alternative assets noted below of 33.3 percent, is \$6.8 billion.

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

Alternative Investment Returns *	FY 2021	FY 2020
Private Equity	55.1%	-0.2%
Real Assets	13.2%	8.0%
Tangible Assets	15.6%	-0.1%
Total Alternative Asset Return	33.3%	3.1%

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

Private equity distributions received during Fiscal Year 2021 totaled \$6.7 billion, slightly more than the \$6.6 billion in capital contributed for new investments and to fund expenses for the same period. While the COVID-19 pandemic had a negative impact on equity markets during the first calendar

quarter of 2020, aggressive monetary and fiscal stimulus, combined with a gradual re-opening of the economy resulted in strong equity performance for the next several quarters. In particular, the private equity portfolio benefited from a significant allocation to the information technology and healthcare sectors, both of which had very strong performance.

Real estate distributions received during Fiscal Year 2021 totaled \$2.0 billion, slightly less than the \$2.1 billion in capital contributed for new investments and to fund expenses for the same period. 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. This continued to be the case during the pandemic, as most properties owned by the WSIB showed resilience in the face of a challenging economic environment. The importance of having a long-term investment horizon is evident in the attractive returns for the real estate portfolio over long periods and through multiple economic cycles. 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.

The tangible asset portfolio continues to grow year over year as new partnerships are added and capital calls continue to exceed distributions. Both calls and distributions were lower in current the fiscal year compared to the previous, due to the slowdown in the economy caused by the pandemic. Performance was slightly higher than expected, primarily due to the timing of the rebound from the lows that were seen in the previous fiscal year.

As shown in the following table, securities on loan increased by \$45.1 million and collateral held under securities lending agreements increased accordingly. The substantial performance in the equity markets during the current fiscal year created downward pressure on utilization and spreads in securities lending, further reducing the specials market. The volatility in the market caused many end-users to reassess their exposures to heavily shorted names. In the international equity markets, there was a reduced demand from borrowers driven by reduced dividends paid by companies in the calendar year 2020, continued tax harmonization, and regulatory changes.

RETIREMENT FUNDS

Cash collateral held under securities lending agreements are reported as an asset and a liability in the accompanying Statement of Fiduciary Net Investment Position.

In Millions:

Securities on Loan Fiscal Year End

Cash Collateral Held Under Securities Lending Agreements

Non-Cash Collateral Held Under Securities Lending Agreements

Total Collateral Held

	June 30, 2021	June 30, 2020	Increase (Decrease)	Percent Change
	\$ 468.2	\$ 423.1	\$ 45.1	10.7%
	249.5	276.5	(27.0)	
	240.0	158.0	82.0	
	\$ 489.5	\$ 434.5	\$ 55.0	12.7%

The returns of the various capital markets, within which the WSIB invests, directly impacts the fair value of the Retirement Funds' fiduciary 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

Retirement Funds Statement of Fiduciary Net Investment Position - June 30, 2021

See notes to financial statements

	Commingled Trust Fund	Plan-Specific Investments	Total	Percent of Plan Assets
ASSETS				
Investments				
CASH AND CASH EQUIVALENTS	\$ 3,672,782,610	\$ 379,957,973	\$ 4,052,740,583	2.7%
DEBT SECURITIES				
Mortgage and Other Asset Backed Securities	2,197,502,229	-	2,197,502,229	
Corporate Bonds	15,661,683,133	-	15,661,683,133	
U.S. Government and Agency Securities	4,124,160,467	-	4,124,160,467	
Foreign Government and Agency Securities	2,463,762,733	-	2,463,762,733	
Total Debt Securities	24,447,108,562	-	24,447,108,562	16.3%
EQUITY SECURITIES				
Common and Preferred Stock	25,887,402,229	-	25,887,402,229	
Commingled Equity Trusts and Mutual Funds	18,758,215,944	-	18,758,215,944	
Real Estate Investment Trusts	404,314,664	-	404,314,664	
Depository Receipts and Other Miscellaneous	1,545,073,683	-	1,545,073,683	
Total Equity Securities	46,595,006,520	-	46,595,006,520	31.0%
ALTERNATIVE INVESTMENTS				
Private Equity	41,511,934,159	-	41,511,934,159	
Real Estate	25,523,741,956	-	25,523,741,956	
Tangible Assets	8,024,629,611	-	8,024,629,611	
Total Alternative Investments	75,060,305,726	-	75,060,305,726	50.0%
Total Investments	149,775,203,418	379,957,973	150,155,161,391	100.0%
Collateral Held Under Securities Lending Agreements	249,452,635	-	249,452,635	
Investment Earnings Receivable	364,825,430	61,026	364,886,456	
Receivables for Investments Sold	368,392,327	-	368,392,327	
Open Foreign Exchange Contracts Receivable	7,738,643,061	-	7,738,643,061	
Total Assets	158,496,516,871	380,018,999	158,876,535,870	
LIABILITIES				
Obligations Under Securities Lending Agreements	249,452,635	-	249,452,635	
Investment Management Fees Payable	18,487,021	37,256	18,524,277	
Payable for Investments Purchased	1,121,125,726	-	1,121,125,726	
Open Foreign Exchange Contracts Payable	7,733,495,340	-	7,733,495,340	
Total Liabilities	9,122,560,722	37,256	9,122,597,978	
FIDUCIARY NET INVESTMENT POSITION	\$ 149,373,956,149	\$ 379,981,743	\$ 149,753,937,892	

RETIREMENT FUNDS

Retirement Funds Statement of Changes in Fiduciary Net Investment Position - Year Ended June 30, 2021

See notes to financial statements

	Commingled Trust Fund	Plan-Specific Investments	Total
Net Investment Income			
Investment Income			
Interest, Dividends, and Other Investment Income	\$ 2,517,936,345	\$ 852,082	\$ 2,518,788,427
Net Realized Gains	9,292,734,026	-	9,292,734,026
Unrealized Gains	24,831,512,466	-	24,831,512,466
Less:			
Investment Expenses	(646,023,430)	(389,965)	(646,413,395)
WSIB Operating Expenses	(21,184,763)	(32,583)	(21,217,346)
Net Investment Income	35,974,974,644	429,534	35,975,404,178
Net Withdrawal by Retirement Plans	-	(694,381,762)	(694,381,762)
Investments in Commingled Funds	792,357,114	(792,357,114)	-
Withdrawals from Commingled Funds	(1,615,823,245)	1,615,823,245	-
Increase in Fiduciary Net Investment Position	35,151,508,513	129,513,903	35,281,022,416
FIDUCIARY NET INVESTMENT POSITION, JUNE 30, 2020	114,222,447,636	250,467,840	114,472,915,476
FIDUCIARY NET INVESTMENT POSITION, JUNE 30, 2021	<u>\$ 149,373,956,149</u>	<u>\$ 379,981,743</u>	<u>\$ 149,753,937,892</u>

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 Fiduciary 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 Fiduciary Net Investment Position. Liabilities resulting from these transactions are also included in each fund's fiduciary 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 Fiduciary 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, 2021, was \$5.9 million and expenses associated with securities lending were \$1.0 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 19 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 Retirement Pension (HERP) Supplemental Benefit Fund. The HERP Funds consist of seven different colleges, University of Washington (UW), Washington State University (WSU), Eastern Washington University (EWU), Central Washington University (CWU), The Evergreen State College (TESC), Western Washington University (WWU), and State Board for Community and Technical Colleges (SBCTC). 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.

RETIREMENT FUNDS

Note 3. Breakdown of Plan Assets

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

Schedule of Participation

RETIREMENT PLANS:	Commingled Trust Fund	Plan-Specific Investments	Total Plan Net Assets	Percent of Plan Assets
LEOFF 1	\$ 7,340,995,198	\$ 1,103,160	\$ 7,342,098,358	4.9%
LEOFF 2	19,163,339,938	4,602,695	19,167,942,633	12.8%
PERS 1	9,569,161,088	2,906,405	9,572,067,493	6.4%
PERS 2/3 (DC and DB Plans)	61,542,312,755	28,500,342	61,570,813,097	41.0%
PUBLIC SAFETY EMPLOYEES 2	1,190,832,348	8,000,660	1,198,833,008	0.8%
SCHOOL EMPLOYEES 2/3 (DC and DB Plans)	10,639,377,781	14,239,573	10,653,617,354	7.1%
STATE PATROL 1	1,600,688,145	964	1,600,689,109	1.1%
STATE PATROL 2	170,484,992	2,000,813	172,485,805	0.1%
TEACHERS 1	7,132,198,010	3,804,455	7,136,002,465	4.8%
TEACHERS 2/3 (DC and DB Plans)	30,422,361,665	62,512,346	30,484,874,011	20.4%
VOLUNTEER FIREFIGHTERS	-	251,474,630	251,474,630	0.2%
LEOFF RETIREMENT BENEFIT IMPROVEMENT	449,710,024	-	449,710,024	0.3%
HERP - UW	89,147,279	599,855	89,747,134	0.1%
HERP - WSU	17,540,763	70,672	17,611,435	0.0%
HERP - EWU	3,526,489	15,041	3,541,530	0.0%
HERP - CWU	3,541,640	18,014	3,559,654	0.0%
HERP - TESC	1,367,447	4,508	1,371,955	0.0%
HERP - WWU	5,233,038	21,946	5,254,984	0.0%
HERP - SBCTC	32,137,549	105,664	32,243,213	0.0%
Total Fiduciary Net Investment Position at June 30, 2021	\$ 149,373,956,149	\$ 379,981,743	\$ 149,753,937,892	100.0%

* DB - Defined Benefit, DC - Defined Contribution

RETIREMENT FUNDS

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	\$ 66,563,915	\$ -	\$ 66,563,915	\$ 21,646,504,916
Public Equity Passive Management	1,493,870	864,315	2,358,185	25,687,975,647
ALTERNATIVE INVESTMENTS				
Private Equity	457,843,915	87,700,000	545,543,915	41,567,689,985
Real Estate	30,310,671	51,600,000	81,910,671	25,597,702,033
Tangible Assets	77,296,721	22,200,000	99,496,721	8,024,596,445
CASH MANAGEMENT	4,164,522	-	4,164,522	2,513,569,759
DEBT SECURITIES	-	-	-	24,715,899,107
OTHER FEES				
Consultants and Accounting	2,689,627	-	2,689,627	NA
Legal Fees	1,225,803	-	1,225,803	NA
Research Services	2,595,342	-	2,595,342	NA
Securities Lending Rebates and Fees	1,014,178	-	1,014,178	NA
Custody Expense	1,059,359	-	1,059,359	NA
Miscellaneous Fees	155,472	-	155,472	NA
	<u>\$ 646,413,395</u>	<u>\$ 162,364,315</u>	<u>\$ 808,777,710</u>	<u>\$ 149,753,937,892</u>

* 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, 2021, the Retirement Funds had a total of \$34,222.0 million in unfunded commitments in the following asset classes (in millions):

Private Equity	\$	20,918.3
Real Estate	\$	8,152.1
Tangibles	\$	5,151.6
Total	\$	34,222.0

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

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

Note 7. Deposit and Investment Risk Disclosures

Custodial Credit Risk

Custodial credit risk is the risk that, in the event a depository institution or counterparty fails, the Retirement Funds will not be able to recover the value of its deposits, investments, or collateral securities. As of June 30, 2021, 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 25 percent of the duration of the portfolio's performance benchmark. As of June 30, 2021, 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, 2021. 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, 2021, 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. As of June 30, 2021, 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, 2021, of \$694.2 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, 2021, was approximately \$468.2 million. The securities on loan remain in the Statement of Fiduciary Net Investment Position in their respective categories. At June 30, 2021, cash collateral received, totaling \$249.5 million, is reported as a securities lending obligation. The fair value of the reinvested cash collateral, totaling \$249.5 million, is reported as security lending collateral in the Statement of Fiduciary 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 Fiduciary Net Investment Position. Total securities received as collateral at June 30, 2021, was \$240.0 million.

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

RETIREMENT FUNDS

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, 2021.

In Millions	Cash Collateral	Non-Cash Collateral	Total
Mortgage Backed Securities	\$ -	\$ 16.0	\$ 16.0
Repurchase Agreements	139.9	-	139.9
Yankee CD	52.8	-	52.8
Commercial Paper	29.5	-	29.5
U.S. Treasuries	-	224.0	224.0
Cash Equivalents and Other	27.3	-	27.3
Total Collateral Held	\$ 249.5	\$ 240.0	\$ 489.5

During Fiscal Year 2021, securities lending transactions could be terminated on demand by either the Retirement Funds or the borrower. As of June 30, 2021, the cash collateral held had an average duration of 18.60 days and an average weighted final maturity of 43.32 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 2021 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 2021, 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 Valuation Service, 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.

RETIREMENT FUNDS

The following table presents fair value measurements as of June 30, 2021:

	Fair Value	Fair Value Measurements Using:		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
INVESTMENTS				
DEBT SECURITIES				
Mortgage and Other Asset Backed Securities	\$ 2,197,502,229	\$ -	\$ 2,197,502,229	\$ -
Corporate Bonds	15,661,683,133	-	15,661,683,133	-
U.S. and Foreign Government and Agency Securities	6,587,923,200	-	6,587,923,200	-
Total Debt Securities	24,447,108,562	-	24,447,108,562	-
EQUITY SECURITIES				
Common and Preferred Stock	25,887,402,229	25,824,134,452	61,985,474	1,282,303
Depository Receipts and Other Miscellaneous	1,545,073,683	1,544,980,914	92,769	-
Mutual Funds and Exchange Traded Funds	76,793,117	76,793,117	-	-
Real Estate Investment Trusts	404,314,664	404,314,664	-	-
Total Equity Securities	27,913,583,693	27,850,223,147	62,078,243	1,282,303
ALTERNATIVE INVESTMENTS				
Real Estate	920,765,013	-	-	920,765,013
Tangible Assets	408,931,308	395,412,885	-	13,518,423
Total Alternative Investments	1,329,696,321	395,412,885	-	934,283,436
Total Investments By Fair Value Level	53,690,388,576	28,245,636,032	24,509,186,805	935,565,739
INVESTMENTS MEASURED AT NET ASSET VALUE				
Collective Investment Trust Funds (Equity Securities)	18,681,422,827			
Private Equity	41,511,934,159			
Real Estate	24,602,976,943			
Tangible Assets	7,615,698,303			
Total Investments at Net Asset Value	92,412,032,232			
Total Investments Measured at Fair Value	\$ 146,102,420,808			
OTHER ASSETS (LIABILITIES) AT FAIR VALUE				
Collateral Held Under Securities Lending Agreements	\$ 249,452,635	\$ -	\$ 249,452,635	\$ -
Net Foreign Exchange Contracts Receivable - Forward and Spot	5,147,721	-	5,147,721	-
Margin Variation Receivable - Futures Contracts	15,560,650	15,560,650	-	-
Obligations Under Securities Lending Agreements	(249,452,635)	-	(249,452,635)	-
Total Other Assets (Liabilities) Measured at Fair Value	\$ 20,708,371	\$ 15,560,650	\$ 5,147,721	\$ -

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 MSCI U.S. IMI and the MSCI EM IMI. 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 EM 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

RETIREMENT FUNDS

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 \$73.7 billion (49 percent of total investments) as of June 30, 2021. 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, 2021, reported net asset value.

Certain limited partnerships are reported at fair value using valuation techniques for which the significant inputs into the valuation are unobservable. These investments have been classified as Level 3 in the above table. These investments provide for distributions from the sale/liquidation of the underlying assets of the fund and it is anticipated that they be liquidated over the following periods: tangible assets over 10 years, real estate over 10 years.

These investments listed below 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
Less than 3 years	\$ 115,390,651	\$ 4,257,276	\$ 381,497	\$ 120,029,424	0.2%
3 to 9 years	3,793,733,059	2,131,045,417	638,878,137	6,563,656,613	8.9%
10 years and over	37,602,810,449	22,467,674,250	6,976,438,669	67,046,923,368	90.9%
Total	\$ 41,511,934,159	\$ 24,602,976,943	\$ 7,615,698,303	\$ 73,730,609,405	100.0%

Private Equity Limited Partnerships

This includes 298 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 25 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 58 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. Derivative Instruments

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 instrument transactions involve, to varying degrees, market and credit risk. At June 30, 2021, the Retirement Funds held investments in financial futures, forward currency contracts, and total return swap contracts that are recorded at fair value, with changes

RETIREMENT FUNDS

in value recognized in investment income in the Statement of Changes in Fiduciary Net Investment Position, in the period of change. For accounting and reporting purposes, the derivative instruments are considered investment derivative instruments and not hedging derivative instruments.

Derivative instruments 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 instrument 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 derivative instrument, the Retirement Funds are exposed to counterparty credit risk on all open OTC positions. Counterparty credit risk is the risk that a derivative instrument counterparty may fail to meet its payment obligation under the derivative instrument contract. As of June 30, 2021, the Retirement Funds’ counterparty risk was approximately \$60.8 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. Derivative instruments, 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, 2021, the Retirement Funds had outstanding forward currency contracts with a net unrealized gain of \$5.1 million. At June 30, 2021, foreign exchange contracts receivable and payable reported on the Statement of Fiduciary Net Investment Position consisted primarily of forward currency contracts. The aggregate forward currency exchange contracts receivable and payable were \$7,701.7 million and \$7,696.6 million, respectively. The contracts have varying settlement dates, ranging from July 1, 2021, to June 21, 2023.

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. During the current fiscal year ended June 30, 2021, the Retirement Funds held no total return swap contracts.

RETIREMENT FUNDS

The Retirement Funds' fixed income portfolio held derivative instrument securities consisting of collateralized mortgage obligations with a fair value of \$106.0 million at June 30, 2021. Domestic and foreign commingled investment trust fund managers may also utilize various derivative instrument securities to manage exposure to risk and increase portfolio returns. Information on the extent of use and holdings of derivative instrument securities by these funds is unavailable.

	Classification	Changes in Fair Value - Included in Investment Income	Fair Value at June 30, 2021 - Investment	Notional
		Amount	Amount	
FUTURES CONTRACTS:				
Bond Index Futures	Investment	\$ (66,631,573)	\$ 17,239,647	1,458,100,000
Equity Index Futures	Investment	242,640,020	(1,678,997)	646,080
		<u>\$ 176,008,447</u>	<u>\$ 15,560,650</u>	<u>1,458,746,080</u>
FORWARD CURRENCY CONTRACTS	Investment	<u>\$ 22,128,122</u>	<u>\$ 5,145,913</u>	<u>7,737,003,134</u>

Note 11. Dollar Weighted Returns

The dollar weighted return for the CTF for fiscal year ended June 30, 2021, was 31.5 percent.

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 instrument securities including futures, options, options on futures, forward contracts, and swap transactions. There were no violations of these investment restrictions during Fiscal Year 2021.

RETIREMENT FUNDS

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 ACWI IMI 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 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 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.

RETIREMENT FUNDS

- 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 +/- 25 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 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 Fiduciary 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.

RETIREMENT FUNDS

Schedule 1: Schedule of Maturities

Investment Type	Total Fair Value	Maturity				Effective Duration *
		Less than 1 year	1-5 years	6-10 years	More than 10 years	
Mortgage and Other Asset Backed Securities	\$ 1,565,282,712	\$ 14,473,845	\$ 1,506,422,062	\$ 44,386,805	\$ -	3.0
Corporate Bonds	15,661,683,133	491,726,721	6,436,547,460	5,691,808,993	3,041,599,959	7.1
U.S. Government and Agency Securities	4,124,160,467	100,218,749	3,061,617,191	539,351,564	422,972,963	4.8
Foreign Government and Agency Securities	2,463,762,733	7,410,167	1,232,326,758	732,649,768	491,376,040	6.5
<i>Totally Internally Managed Fixed Income</i>	23,814,889,045	613,829,482	12,236,913,471	7,008,197,130	3,955,948,962	6.4
Mortgage Backed TBA Forwards	632,219,517	632,219,517	-	-	-	0.0
Total Retirement Funds Investment	24,447,108,562	\$ 1,246,048,999	\$ 12,236,913,471	\$ 7,008,197,130	\$ 3,955,948,962	6.2
Investments Not Required to be Categorized						
Cash and Cash Equivalents	4,052,740,583					
Equity Securities	46,595,006,520					
Alternative Investments	75,060,305,726					
Total Investments Not Categorized	125,708,052,829					
Total Investments	\$ 150,155,161,391					

* Excludes cash balances in calculation

RETIREMENT FUNDS

Schedule 2: Credit Rating Disclosures

Moody's Equivalent Credit Rating	Investment Type				
	Total Fair Value	Mortgage and Other Asset Backed Securities	Corporate Bonds	U.S. Government and Agency Securities	Foreign Government and Agency Securities
Aaa	\$ 7,064,309,454	\$ 2,197,189,301	\$ 627,469,651	\$ 4,124,160,467	\$ 115,490,035
Aa1	378,806,387	-	144,201,850	-	234,604,537
Aa2	326,598,317	-	267,429,037	-	59,169,280
Aa3	981,637,798	-	772,001,848	-	209,635,950
A1	1,537,207,871	-	1,107,624,200	-	429,583,671
A2	1,779,657,786	-	1,712,143,746	-	67,514,040
A3	2,322,186,692	-	2,322,186,692	-	-
Baa1	2,116,508,305	-	2,036,499,955	-	80,008,350
Baa2	2,904,156,384	312,928	2,432,261,283	-	471,582,173
Baa3	2,357,965,685	-	2,072,447,695	-	285,517,990
Ba1 or Lower	2,678,073,883	-	2,167,417,176	-	510,656,707
Total	\$ 24,447,108,562	\$ 2,197,502,229	\$ 15,661,683,133	\$ 4,124,160,467	\$ 2,463,762,733

RETIREMENT FUNDS

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	\$ 1,698,386	\$ 62,071,087	\$ 550,946,212	\$ 298,666,454	\$ (1,038,617)	\$ 912,343,522	0.6%
BRAZILIAN REAL	3,776,710	-	354,302,779	-	523,675	358,603,164	0.2%
CANADIAN DOLLAR	4,075,578	-	762,810,195	-	(500,613)	766,385,160	0.5%
SWISS FRANC	690,239	-	1,057,535,704	-	(3,584,194)	1,054,641,749	0.7%
YUAN RENMINBI	2,280,187	16,219,274	371,450,984	-	3,064,206	393,014,651	0.3%
DANISH KRONE	104,454	-	303,434,365	-	144,839	303,683,658	0.2%
EURO CURRENCY	4,058,881	-	3,595,536,954	5,482,746,571	(1,033,036)	9,081,309,370	6.0%
POUND STERLING	3,918,769	-	1,931,175,621	-	(4,781,706)	1,930,312,684	1.3%
HONG KONG DOLLAR	10,212,959	-	1,387,791,518	-	(18,828)	1,397,985,649	0.9%
INDONESIAN RUPIAH	99,884	-	54,626,474	-	-	54,726,358	0.0%
INDIAN RUPEE	2,426,302	-	267,545,314	-	(53,044)	269,918,572	0.2%
JAPANESE YEN	23,041,263	-	3,277,870,480	-	13,833,469	3,314,745,212	2.2%
SOUTH KOREAN WON	1,098,818	-	633,311,568	-	133,952	634,544,338	0.4%
MEXICAN PESO	79,231	-	83,171,408	-	2,731,613	85,982,252	0.1%
NORWEGIAN KRONE	180,398	-	68,815,458	-	(68,336)	68,927,520	0.0%
SWEDISH KRONA	550,571	-	436,514,471	-	(1,016,990)	436,048,052	0.3%
SINGAPORE DOLLAR	582,612	-	163,248,678	-	(4,351)	163,826,939	0.1%
THAILAND BAHT	200,061	-	61,985,470	-	-	62,185,531	0.0%
NEW TAIWAN DOLLAR	4,607,539	-	522,776,817	-	563,450	527,947,806	0.4%
URUGUAYAN PESO	-	52,066,605	-	-	-	52,066,605	0.0%
SOUTH AFRICAN RAND	2,108,759	-	58,676,051	39,406,062	(1,762,291)	98,428,581	0.1%
MISCELLANEOUS	1,196,879	35,279,296	262,870,946	-	(1,985,477)	297,361,643	0.2%
Total Foreign Currency Exposure	\$ 66,988,480	\$ 165,636,262	\$ 16,206,397,467	\$ 5,820,819,087	\$ 5,147,721	\$ 22,264,989,016	14.8%



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 Retirement Funds as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Retirement Funds' financial statements, and have issued our report thereon dated September 28, 2021.

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) as a basis for designing 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.

What inspires you, inspires us. Let's talk. | eidebailly.com

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

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 financial statements. 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.

The logo for Eide Bailly LLP is written in a cursive, handwritten style. The letters are dark and fluid, with the 'E' and 'B' being particularly prominent.

Boise, Idaho
September 28, 2021

LABOR AND INDUSTRIES' FUNDS





Independent Auditor's Report

To the Members of the Washington State Investment Board

Olympia, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the Labor and Industries' Funds (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 fiduciary net investment position as of June 30, 2021, and the related statement of changes in fiduciary 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

What inspires you, inspires us. Let's talk. | eidebailly.com

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

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 fiduciary net investment position of the Labor and Industries' Funds as of June 30, 2021, and the changes in fiduciary net investment position for the year then ended in conformity 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 a report dated September 28, 2021, 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.



Boise, Idaho

September 28, 2021

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 Fiduciary Net Investment Position provides information on the types of investments, assets, and liabilities of the L&I Funds as of June 30, 2021. The Statement of Changes in Fiduciary Net Investment Position provides information on investment performance and other increases and decreases in the fiduciary net investment position of the L&I Funds, for the year ended June 30, 2021. The following table compares the fiduciary net investment position of each major investment classification at June 30, 2021, with those at June 30, 2020. 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.

General Market Commentary

The fiscal year began with the global economy amid a second wave of outbreaks related to the coronavirus (COVID-19) pandemic. The U.S. experienced steady declines in infection rates, while Europe experienced an increase. The significant progress towards a vaccine in the fall contributed to strong first fiscal quarter results in the global equity markets. Monetary policy goals of the U.S. Federal Reserve (Fed) are to foster economic conditions that achieve both stable prices and maximum sustainable employment. To achieve these goals, the Fed announced they were shifting from a set to an average inflation target. This allowed inflation to temporarily exceed the established set inflation targets.

Global equity markets continued to rally in the second quarter of the fiscal year. The U.S. election results, combined with the progress of COVID-19 vaccines, helped the more cyclical segments of the market recover. The pandemic took a turn for the worse during this period, with increasing infection rates in Europe and the U.S. in the second quarter topping previous highs. Governments implemented new stringent lockdown measures to slow the spread of COVID-19. The U.S. passed a \$900 billion stimulus package during this quarter, which included a \$600 cash disbursement to qualified individuals, more funding for the Paycheck Protection Program, and a 10-week extension of unemployment benefits. Emerging markets countries outperformed the developed markets in the second quarter, with the Morgan Stanley Capital International (MSCI) Emerging Markets (EM) Investable Market Index (IMI) returning 20.0 percent, and the MSCI Developed World IMI returned 15.1 percent. With global investors in a risk-on mood, the 10-year U.S. Treasury rate increased by 23 basis points during the second quarter of the fiscal year to end at 0.9 percent.

The third quarter of the fiscal year was marked by two key events. One was the Democratic victory in the state of Georgia, which shifted the leadership in the senate, enabling further massive U.S. fiscal stimulus to be enacted. The other major event was the success of the vaccine roll-out. Business surveys improved in March, with manufacturing expanding strongly in both Europe and the U.S. The U.S. service sector continued to perform well, but the most notable improvement was in the United Kingdom (UK) service sector, with businesses noting improvements in consumer confidence and signs of pent-up demand. The

LABOR AND INDUSTRIES' FUNDS

Fed again kept interest rates unchanged and made no major changes to the Fed Bond Buying Program. The goal of this program is to maintain liquidity in the financial markets. Reductions in the amount of bonds purchased by the Fed in the secondary markets could potentially impact quantitative easing, leading to higher interest rates. Despite a lack of direct action from the Fed, U.S. interest rates rose considerably as investors became increasingly concerned about inflation. The 10-year U.S. Treasury rate increased by 83 basis points to end the quarter at 1.7 percent, which marked the highest month-end close since 1.9 percent at the end of December 2019.

The last quarter of the fiscal year ended with global equity markets continuing to rise as vaccination rates accelerated in most developed economies. Leading economic indicators released in June 2021 showed the economy continued to recover. The MSCI World Developed IMI returned a robust 40.6 percent over the fiscal year. The MSCI U.S. IMI returned 43.8 percent, while the MSCI EM IMI trailed close behind, returning 43.2 percent for the fiscal year. The Fed kept their policy rate at 0.25 percent and indicated it would maintain the current pace of bond purchases under the Fed Bond Program until there is substantial progress on the employment and inflation statistics. The 10-year U.S. Treasury rate decreased by 27 basis points during the last quarter to end the fiscal year at 1.5 percent, which is 81 basis points higher than last fiscal year. Credit spreads for both high yield and investment grade bonds declined in tandem with the risk-on mood of global equities. High yield spreads narrowed 42 basis points to end at 268, down 358 basis points over the fiscal year. Investment grade spreads tightened 11 basis points, ending at 80 basis points, narrower by 70 basis points for the fiscal year.

As shown in the following table, the fiduciary net investment position of the L&I Funds increased by \$1,017.5 million during the fiscal year ended June 30, 2021. Net withdrawals from the L&I Funds during the year decreased fiduciary net investment position by \$285.7 million. Net investment income increased fiduciary net investment position by \$1,303.2 million and was retained and reinvested in the various asset classes of the L&I Funds.

Net investment income decreased by \$533.2 million during the current fiscal year as compared to the prior year, in large part due to increases in net realized and unrealized losses in debt securities of \$1.6 billion. This decrease was partially offset by a substantial increase of \$ 1.1 billion of net realized and unrealized gains in equity securities. The current fiscal year return for the L&I Funds was 6.4 percent, compared to the prior fiscal year return of 9.8 percent.

Net withdrawals from the L&I Funds increased by \$257.8 million from the prior fiscal year as a direct result of insurance premium rate reductions and a decrease in employer reported hours. The Accident Account and the Medical Aid Account premium rates decreased 3.0 percent in the prior fiscal year. The Medical Aid Account premium rates decreased an additional 7.8 percent on January 1, 2021. 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.

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 fiduciary 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.

LABOR AND INDUSTRIES' FUNDS

	Summarized Change in Fiduciary Net Investment Position and Returns by Asset Class (in Millions)									
	Fiscal Year End June 30, 2021				Fiscal Year End June 30, 2020				Year Over Year Change	
	Debt Securities (*)	Equity Securities	Alternative Assets	Total	Debt Securities (*)	Equity Securities	Alternative Assets	Total	Increase (Decrease)	Percent Change
Beginning Fiduciary Net Investment Position (**)	\$ 17,011.8	\$ 3,347.6	\$ 11.6	\$ 20,371.0	\$ 15,753.5	\$ 2,808.9	\$ -	\$ 18,562.4	\$ 1,808.6	9.7%
Investment Income:										
Interest, Dividends, and Other Investment Income	473.6	0.8	-	474.4	508.2	0.6	-	508.8	(34.4)	-6.8%
Realized and Unrealized Gains (Losses)	(422.5)	1,258.9	0.3	836.7	1,170.3	168.4	(0.8)	1,337.9	(501.2)	-37.5%
Less: Investment Expenses	(5.4)	(1.7)	(0.7)	(7.8)	(8.7)	(1.5)	(0.2)	(10.4)	(2.6)	-25.0%
Net Investment Income (Loss)	45.7	1,258.0	(0.4)	1,303.3	1,669.8	167.5	(1.0)	1,836.3	(533.0)	-29.0%
Net Contributions (Withdrawals)	(286.3)	0.6	-	(285.7)	(28.5)	0.6	-	(27.9)	(257.8)	924.0%
Transfers to Other Asset Classes	777.5	(777.0)	(0.5)	-	(383.1)	370.5	12.6	-	-	NA
Ending Fiduciary Net Investment Position (**)	\$ 17,548.7	\$ 3,829.2	\$ 10.7	\$ 21,388.6	\$ 17,011.8	\$ 3,347.6	\$ 11.6	\$ 20,371.0	\$ 1,017.6	5.0%
Increase (Decrease) in Fiduciary Net Investment Position	\$ 536.9	\$ 481.6	\$ (0.9)	\$ 1,017.6						
Percent Change in Fiduciary Net Investment Position	3.2%	14.4%	-7.8%	5.0%						
One Year Time Weighted Return - June 30, 2021	0.4%	41.2%	-2.6%	6.4%						
One Year Time Weighted Return - June 30, 2020	10.8%	1.5%	-7.8%	9.8%						

(*) Includes cash balances used for trading purposes

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

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

- Debt securities** fiduciary net investment position increased by \$536.9 million. Interest income net of expenses of \$468.2 million was reinvested in debt securities during the current fiscal year. Net realized and unrealized losses decreased balances in this asset class by \$422.5 million. Due to the strong equity performance during the fiscal year, the L&I Funds rebalanced to strategic asset allocation targets and \$778.0 million was transferred and reinvested in debt securities across the L&I Funds. The fiduciary net investment position and performance of debt securities included \$249.1 million of cash balances used for trading purposes.

Despite to the rising interest rate environment, interest income on fixed income securities decreased by \$34.6 million from the previous fiscal year. Interest rates were high leading up to the onset of the pandemic, and in March of 2020, interest rates began to drop. Most of the previous fiscal year, debt securities earned income at rates higher than the current fiscal year. Therefore, the income earned in the previous year was substantially higher in comparison to this year. The average coupon rate at June 30, 2021, ranged from 2.7 to 3.3 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 3.0 to 3.5 percent.

During the current fiscal year, interest rates rose substantially, causing bond prices to decrease, which negatively impacted overall bond market returns. Credit spreads narrowed during the current fiscal year, which partially offset the reduced returns caused by the increasing rate environment. The combination of rising interest rates and narrowing credit spreads caused the bond market returns to be significantly lower than the previous year, but still resulted in an overall positive return.

LABOR AND INDUSTRIES' FUNDS

Performance for the L&I fixed income portfolios was 0.4 percent for the fiscal year ended June 30, 2021, which underperformed their Comparable Market Indices (CMI) across each L&I Fund. The CMI benchmark returns for each individual fund ranged from 1.3 to 1.9 percent. The longer maturity profile in comparison to the CMI, coupled with security selection and asset allocation between industries and sectors, contributed to the underperformance. An additional factor driving decreased returns in the debt portfolio was a rising interest rate environment, which decreased the prices for both U.S. Treasuries and credit bonds this year. The large decrease in returns in the debt portfolio over the previous year decreased realized and unrealized gains and losses by \$1,592.8 million year over year.

- **Equity securities** fiduciary net investment position increased by \$481.5 million from the prior fiscal year. Net realized and unrealized gains increased the fiduciary net investment position of equity securities by \$1,258.8 million. The overall investment returns for equity securities in the current fiscal year was 41.2 percent, which was a significant increase from the prior fiscal year return of 1.5 percent. The substantial increase in equity returns increased net realized and unrealized gains over the previous fiscal year by \$1,090.3 million. The equity portfolio is passively managed and is structured to closely track the performance of its global benchmark, MSCI All Country World (ACWI) IMI with U.S. Gross, which returned 41.3 percent and is slightly higher than the returns achieved in the L&I equity portfolio.

The global equity markets had an incredible year, returning more than 40 percent one year after the onset of the COVID-19 pandemic. At the nadir of the pandemic, global equity markets declined more than 30 percent and the global economy entered a deep recession. Unemployment skyrocketed and gross domestic product (GDP) sharply contracted as large sections of the global economy were completely shut down. Unprecedented levels of stimulus and governmental support helped to minimize the impact of the recession on the U.S. economy. Markets were able to recover nearly all the ground lost due to the pandemic by September 2020. By the time news emerged that multiple vaccines had high efficacy against COVID-19 in late 2020, investors began looking through the depressed economic environment and toward an eventual return to normalcy in the quarters ahead. As countries rolled out inoculation programs in early 2021 and economies began to fully reopen, markets closed out the fiscal year at record highs.

- **Alternative Assets** were funded for the first time in the previous fiscal year. The L&I real estate program remains in its early stages and has investments currently consisting entirely of European residential properties. The L&I Funds invested \$14.6 million in the real estate program since inception last year and received \$3.3 million in return of capital over the current fiscal year. The overall investment return for alternative assets in the current fiscal year was (2.6) percent, which was a significant increase from the prior fiscal year return of (7.8) percent. During the early years of a new investment program, start-up costs, operating expenses, and management fees are disproportionately large as a percentage of assets under management. This leads to low short-term returns. This is expected to correct over time as the size of the portfolio grows.

LABOR AND INDUSTRIES' FUNDS

Labor and Industries' Funds Statement of Fiduciary Net Investment Position - June 30, 2021

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	\$ 77,076,753	\$ 47,618,265	\$ 78,912,361	\$ 45,537,605	\$ 249,144,984	1.2%
DEBT SECURITIES						
Mortgage and Other Asset Backed Securities	407,645,765	319,690,746	283,053,236	-	1,010,389,747	
Corporate Bonds	4,240,629,044	3,976,310,354	3,852,746,363	12,306,680	12,081,992,441	
U.S. Government and Agency Securities	990,141,017	811,727,735	756,189,063	58,930,469	2,616,988,284	
Foreign Government and Agency Securities	549,984,250	592,168,540	359,419,077	5,169,480	1,506,741,347	
Total Debt Securities	6,188,400,076	5,699,897,375	5,251,407,739	76,406,629	17,216,111,819	80.8%
EQUITY SECURITIES						
Commingled Investment Trusts	1,355,957,880	1,741,221,719	732,219,910	-	3,829,399,509	
Total Equity Securities	1,355,957,880	1,741,221,719	732,219,910	-	3,829,399,509	18.0%
ALTERNATIVE INVESTMENTS						
Real Estate	4,161,192	3,708,625	2,845,173	-	10,714,990	
Total Alternative Investments	4,161,192	3,708,625	2,845,173	-	10,714,990	Trace
Total Investments	7,625,595,901	7,492,445,984	6,065,385,183	121,944,234	21,305,371,302	100.0%
Investment Earnings Receivable	40,677,293	35,227,656	37,186,880	264,456	113,356,285	
Total Assets	7,666,273,194	7,527,673,640	6,102,572,063	122,208,690	21,418,727,587	
LIABILITIES						
Investment Accounts Payable	99,731	14,992,171	15,008,123	11,815	30,111,840	
Total Liabilities	99,731	14,992,171	15,008,123	11,815	30,111,840	
FIDUCIARY NET INVESTMENT POSITION	\$ 7,666,173,463	\$ 7,512,681,469	\$ 6,087,563,940	\$ 122,196,875	\$ 21,388,615,747	

LABOR AND INDUSTRIES' FUNDS

Labor and Industries' Funds Statement of Changes in Fiduciary Net Investment Position - Year Ended June 30, 2021

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	\$ 168,673,926	\$ 145,933,919	\$ 158,124,867	\$ 1,708,845	\$ 474,441,557
Net Realized Capital Gains	121,729,304	108,051,516	77,815,960	263,710	307,860,490
Unrealized Gains (Losses)	173,792,697	339,555,746	16,926,251	(1,577,590)	528,697,104
Less:					
Investment Expenses	(1,528,021)	(1,473,579)	(989,949)	(128,560)	(4,120,109)
WSIB Operating Expenses	(1,306,102)	(1,261,450)	(1,056,858)	(25,993)	(3,650,403)
Net Investment Income	461,361,804	590,806,152	250,820,271	240,412	1,303,228,639
Net Amount Contributed (Withdrawn)	5,225,102	(57,603,550)	(205,470,142)	(27,802,007)	(285,650,597)
Increase (Decrease) in Fiduciary Net Investment Position	466,586,906	533,202,602	45,350,129	(27,561,595)	1,017,578,042
FIDUCIARY 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
FIDUCIARY NET INVESTMENT POSITION, JUNE 30, 2021	\$ 7,666,173,463	\$ 7,512,681,469	\$ 6,087,563,940	\$ 122,196,875	\$ 21,388,615,747

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 Fiduciary 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 Fiduciary 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 Fiduciary Net Investment Position does not include detailed holdings of securities lending collateral by investment classification. During the current fiscal year, the L&I had no securities on loan.

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, 2021, 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, 2021, 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, 2021. 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, 2021, 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, 2021.

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, 2021, consisted of \$1.6 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 Funders 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.

When debt securities are loaned during the fiscal year, they are collateralized by the L&I 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 have 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 are required to be collateralized at 105 percent of the fair value, including accrued interest of the loaned securities. No securities were lent during the current fiscal year and, accordingly, no collateral was held at June 30, 2021.

Securities lending transactions can be terminated on demand by either the L&I or the borrower. Non-cash collateral cannot 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 are lent with the agreement they will 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 2021, no securities were lent and, accordingly, 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 2021, the L&I Funds incurred no losses resulting from a default by either the borrowers or the securities lending agents.

Note 5. Derivative Instruments

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 instrument transactions involve, to varying degrees, market and credit risk. The L&I Funds mitigate market risks arising from derivative instrument 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 instrument 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 instrument securities to manage exposure to risk and increase portfolio returns. Information on the extent of use and holdings of derivative instrument securities by passive equity index fund managers is unavailable. At June 30, 2021, the only derivative instrument securities held directly by the L&I Funds were collateralized mortgage obligations of \$382.6 million.

Note 6. Fair Value

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

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

Inputs used to measure fair value might fall in different levels of the fair value hierarchy; in which case, the L&I Funds 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 Valuation Service 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.

LABOR AND INDUSTRIES' FUNDS

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, 2021:

	Fair Value	Fair Value Measurements Using:		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
INVESTMENTS				
DEBT SECURITIES				
Mortgage and Other Asset Backed Securities	\$ 1,010,389,747	\$ -	\$ 1,010,389,747	\$ -
Corporate Bonds	12,081,992,441	-	12,081,992,441	-
U.S. and Foreign Government and Agency Securities	4,123,729,631	-	4,123,729,631	-
Total Debt Securities	17,216,111,819	-	17,216,111,819	-
Total Investments By Fair Value Level	\$ 17,216,111,819	\$ -	\$ 17,216,111,819	\$ -
INVESTMENTS MEASURED AT NET ASSET VALUE				
Commingled Equity Investment Trusts	3,829,399,509			
Real Estate	10,714,990			
Total Investments Measured at Fair Value	\$ 21,056,226,318			

Debt Securities (Level 2)

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

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

The L&I Funds invest in a single Collective Investment Trust Fund (Fund). The Fund is passively managed to track the investment return of a broad, global equity index, the MSCI ACWI IMI 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.

LABOR AND INDUSTRIES' FUNDS

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 \$10.7 million (0.1 percent of total investments) as of June 30, 2021. 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 reported net asset value at June 30, 2021.

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

The L&I Funds' real estate program 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.

LABOR AND INDUSTRIES' FUNDS

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	80%	15%	5%
Pension Reserve Fund	85%	10%	5%
Medical Aid Fund	75%	20%	5%
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 MSCI ACWI IMI 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 25 percent of a duration target of 7 years.
Pension Reserve Fund (610): within plus or minus 25 percent of a duration target of 10 years.
Medical Aid Fund (609): within plus or minus 25 percent of a duration target of 6 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.

LABOR AND INDUSTRIES' FUNDS

Permissible Fixed Income Investments

- 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.
- 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 Global Family of fixed income indices, shall not exceed 5 percent of the total market value of the funds. Although below investment grade mortgage backed, asset backed, and commercial mortgage backed securities may not be purchased, portfolio holdings that are downgraded to those levels or are no longer rated 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.

LABOR AND INDUSTRIES' FUNDS

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		
Mortgage and Other Asset Backed Securities	\$ 1,010,389,747	\$ 60,573,381	\$ 838,681,670	\$ 111,134,696	\$ -	3.8	Aaa
Corporate Bonds	12,081,992,441	1,000,565,270	5,069,532,333	2,688,657,216	3,323,237,622	7.3	Schedule 2
U.S. Government and Agency Securities	2,616,988,284	65,735,156	1,420,864,065	635,182,032	495,207,031	6.9	Aaa
Foreign Government and Agencies	1,506,741,347	206,324,750	831,414,197	381,277,400	87,725,000	4.8	Schedule 2
	17,216,111,819	\$ 1,333,198,557	\$ 8,160,492,265	\$ 3,816,251,344	\$ 3,906,169,653	6.8	
Investments Not Required to be Categorized							
Commingled Investment Trusts	3,829,399,509						
Cash and Cash Equivalents	249,144,984						
Real Estate	10,714,990						
Total Investments Not Categorized	4,089,259,483						
Total L&I Funds Investments	\$ 21,305,371,302						

* Excludes cash and cash equivalents

Schedule 2: Additional Credit Ratings Disclosure

Moody's Equivalent Credit Rating	Corporate Bonds	Foreign Government and Agency Securities
	Aaa	\$ 596,587,950
Aa1	177,751,400	270,882,400
Aa2	234,962,400	170,074,400
Aa3	959,986,147	251,045,000
A1	1,612,819,160	343,578,350
A2	2,471,058,285	30,563,400
A3	2,125,920,852	-
Baa1	1,762,477,029	-
Baa2	1,568,969,234	119,900,487
Baa3	441,752,360	39,111,500
Ba1 or Lower	129,707,624	5,159,850
Total	\$ 12,081,992,441	\$ 1,506,741,347

Schedule 3: Foreign Currency Exposure

Foreign Currency Denomination	Equity Securities	Percent of Total Investments
AUSTRALIAN DOLLAR	\$ 75,726,511	0.4%
BRAZILIAN REAL	26,458,226	0.1%
CANADIAN DOLLAR	111,441,156	0.5%
SWISS FRANC	90,788,906	0.4%
YUAN RENMINBI	19,788,580	0.1%
DANISH KRONE	24,554,983	0.1%
EURO CURRENCY	315,526,111	1.5%
POUND STERLING	149,492,731	0.7%
HONG KONG DOLLAR	148,081,901	0.7%
INDIAN RUPEE	52,936,794	0.3%
JAPANESE YEN	241,026,832	1.1%
SOUTH KOREAN WON	67,377,917	0.3%
SWEDISH KRONA	43,712,221	0.2%
NEW TAIWAN DOLLAR	72,661,038	0.4%
SOUTH AFRICAN RAND	17,306,660	0.1%
OTHER (MISC)	109,618,979	0.5%
Total Foreign Currency Exposure	\$ 1,566,499,546	7.4%



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

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, 2021, 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 28, 2021.

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) as a basis for designing 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.

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,

What inspires you, inspires us. Let's talk. | eidebailly.com

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

regulations, and contracts, noncompliance with which could have a direct and material effect on the financial statements. 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.



Boise, Idaho

September 28, 2021



PERMANENT FUNDS



Independent Auditor's Report

To the Members of the Washington State Investment Board

Olympia, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the Permanent Funds (which 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 fiduciary net investment position as of June 30, 2021, and the related statement of changes in fiduciary 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

What inspires you, inspires us. Let's talk. | eidebailly.com

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

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 fiduciary net investment position of the Permanent Funds as of June 30, 2021, and the changes in fiduciary net investment position for the year then ended in conformity 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 a report dated September 28, 2021, 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.



Boise, Idaho

September 28, 2021

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 Fiduciary Net Investment Position provides information on the types of investments, assets, and liabilities of the Permanent Funds, as of June 30, 2021. The Statement of Changes in Fiduciary Net Investment Position provides information on investment performance and other increases and decreases in the fiduciary net investment position of the Permanent Funds for the year ended June 30, 2021. The following table compares the fiduciary net investment position of each major investment classification at June 30, 2021, with those at June 30, 2020. 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.

General Market Commentary

The fiscal year began with the global economy amid a second wave of outbreaks related to the coronavirus (COVID-19) pandemic. The U.S. experienced steady declines in infection rates, while Europe experienced an increase. The significant progress towards a vaccine in the fall contributed to strong first fiscal quarter results in the global equity markets. Monetary policy goals of the U.S. Federal Reserve (Fed) are to foster economic conditions that achieve both stable prices and maximum sustainable employment. To achieve these goals, the Fed announced they were shifting from a set to an average inflation target. This allowed inflation to temporarily exceed the established set inflation targets.

Global equity markets continued to rally in the second quarter of the fiscal year. The U.S. election results, combined with the progress of COVID-19 vaccines, helped the more cyclical segments of the market recover. The pandemic took a turn for the worse during this period, with increasing infection rates in Europe and the U.S. in the second quarter topping previous highs. Governments implemented new stringent lockdown measures to slow the spread of COVID-19. The U.S. passed a \$900 billion stimulus package during this quarter, which included a \$600 cash disbursement to qualified individuals, more funding for the Paycheck Protection Program, and a 10-week extension of unemployment benefits. Emerging markets countries outperformed the developed markets in the second quarter, with the Morgan Stanley Capital International (MSCI) Emerging Markets (EM) Investable Market Index (IMI) returning 20.0 percent, and the MSCI Developed World IMI returned 15.1 percent. With global investors in a risk-on mood, the 10-year U.S. Treasury rate increased by 23 basis points during the second quarter of the fiscal year to end at 0.9 percent.

The third quarter of the fiscal year was marked by two key events. One was the Democratic victory in the state of Georgia, which shifted the leadership in the senate, enabling further massive U.S. fiscal stimulus to be enacted. The other major event was the success of the vaccine roll-out. Business surveys improved in March, with manufacturing expanding strongly in both Europe and the U.S. The U.S. service sector continued to perform well, but the most notable improvement was in the United Kingdom (UK) service sector, with businesses noting improvements in consumer confidence and signs of pent-up demand. The Fed again kept interest rates unchanged and made no major changes to the Fed Bond Buying Program. The goal of this program is to maintain liquidity in the

financial markets. Reductions in the amount of bonds purchased by the Fed in the secondary markets could potentially impact quantitative easing, leading to higher interest rates. Despite a lack of direct action from the Fed, U.S. interest rates rose considerably as investors became increasingly concerned about inflation. The 10-year U.S. Treasury rate increased by 83 basis points to end the quarter at 1.7 percent, which marked the highest month-end close since 1.9 percent at the end of December 2019.

The last quarter of the fiscal year ended with global equity markets continuing to rise as vaccination rates accelerated in most developed economies. Leading economic indicators released in June 2021 showed the economy continued to recover. The MSCI World Developed IMI returned a robust 40.6 percent over the fiscal year. The MSCI U.S. IMI returned 43.8 percent, while the MSCI EM IMI trailed close behind, returning 43.2 percent for the fiscal year. The Fed kept their policy rate at 0.25 percent and indicated it would maintain the current pace of bond purchases under the Fed Bond Program until there is substantial progress on the employment and inflation statistics. The 10-year U.S. Treasury rate decreased by 27 basis points during the last quarter to end the fiscal year at 1.5 percent, which is 81 basis points higher than last fiscal year. Credit spreads for both high yield and investment grade bonds declined in tandem with the risk-on mood of global equities. High yield spreads narrowed 42 basis points to end at 268, down 358 basis points over the fiscal year. Investment grade spreads tightened 11 basis points, ending at 80 basis points, narrower by 70 basis points for the fiscal year.

As shown in the following table, the fiduciary net investment position of the Permanent Funds increased by \$126.6 million during the fiscal year ended June 30, 2021. Net contributions from the Department of Natural Resources (DNR) on behalf of the Permanent Funds during the year increased fiduciary net investment position by \$13.1 million and were mainly invested in fixed income securities. Net investment income increased fiduciary net investment position by \$158.3 million. Distributable investment income (interest, dividends, and other investment income net of investment expenses) of \$44.8 million was distributed to the state colleges and universities pursuant to state laws, which decreased fiduciary 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.

As a result of a strategic asset allocation study, the WSIB decreased fixed income allocation targets by 10 percent, with a corresponding increase to equity securities in the Permanent Funds. The Permanent Funds rebalanced their portfolio in December to meet the newly approved asset allocation targets. In response to the asset allocation policy change, fixed income securities with a value of \$81.9 million were sold and the proceeds were invested in equity securities in December 2020. Due to the phenomenal returns in the equity portfolio in the current fiscal year, rebalancing transfers were required to maintain strategic asset allocation targets. In September 2020 and May 2021, equity securities were sold and the proceeds of \$55.0 million were invested in debt securities.

Net investment income increased by \$73.8 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 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 components of this increase in net distributable investment income include the following:
 - Net Investment Income in the Commingled Monthly Equity Fund (CMEF) increased by \$15.0 million over the previous fiscal year. The sale of securities throughout the fiscal year generated \$14.1 million in distributable capital gains, an increase of \$13.2 million over the previous fiscal year.

Most of the capital gains were realized in May 2021 when equity securities were sold and subsequently reinvested in fixed income securities to rebalance the portfolio to strategic investment targets. The dividend yield within the CMEF increased by 15 basis points from the previous fiscal year, which also increased dividends received within the portfolio.

- Net investment income in the Commingled Monthly Bond Fund (CMBF) decreased by \$9.1 million over the previous fiscal year. Asset allocation rebalancing transfers coupled with market losses within the portfolio decreased the invested balances from the prior year and interest earnings, accordingly. In addition, the average coupon rate in the CMBF decreased this fiscal year from 3.0 to 2.6 percent significantly impacting interest earnings within the fund.
- The net realized and unrealized gains increased by \$67.9 million as the result of significant increases in equity returns during the current fiscal year. The debt portfolio returns declined from the prior fiscal year, which partially offset the impact of the increase in gains earned in the equity portfolio. The fixed income portfolio, which represents 58 percent of invested balances at year end, returned (0.7) percent in the current fiscal year, as compared to the prior fiscal year return of 10.1 percent. The equity portfolio, which represents 41.6 percent of invested balances at year end, returned 40.6 percent in the current fiscal year, as compared to the prior fiscal year return of 1.0 percent.

Net contributions from DNR increased by \$2.1 million from the previous fiscal year. The contributions received from DNR each year are dependent on timber and land sales held as corpus on behalf of the Permanent Funds. These contributions are directly influenced by the volume of sales, timber and land prices, and other economic factors which change from year to year and impact the amount available for the WSIB to invest in securities.

Distributions to the beneficiary funds increased by \$3.5 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, and realized gains. Distributable earnings 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 compared to the prior year was mainly the result of increased realized gains realized in the equity portfolio as discussed earlier.

PERMANENT FUNDS

	Summarized Change in Fiduciary Net Investment Position and Returns by Asset Class									
	Fiscal Year End June 30, 2021				Fiscal Year End June 30, 2020				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 Fiduciary 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%
Investment Income:										
Interest, Dividends, and Other Investment Income	1,581	22,330,693	25,084,568	47,416,842	7,338	31,454,529	10,081,762	41,543,629	5,873,213	14.1%
Realized and Unrealized Gains (Losses)	-	(25,866,600)	137,007,514	111,140,914	-	46,791,882	(3,596,391)	43,195,491	67,945,423	157.3%
Less: Investment Expenses	(1,842)	(136,396)	(80,594)	(218,832)	(1,070)	(158,981)	(72,311)	(232,362)	(13,530)	-5.8%
Net Investment Income	(261)	(3,672,303)	162,011,488	158,338,924	6,268	78,087,430	6,413,060	84,506,758	73,832,166	87.4%
Contributions	13,055,000	-	-	13,055,000	10,919,822	-	-	10,919,822	2,135,178	19.6%
Withdrawals and Distributions	(8,393)	(22,178,003)	(22,583,573)	(44,769,969)	(15,813)	(31,283,141)	(10,010,025)	(41,308,979)	3,460,990	8.4%
Transfers Between Asset Classes	(8,621,454)	(16,795,963)	25,417,417	-	(11,268,522)	(28,772,351)	40,040,873	-	-	NA
Ending Fiduciary Net Investment Position (*)	\$ 4,888,028	\$ 757,821,008	\$ 543,466,736	\$ 1,306,175,772	\$ 463,136	\$ 800,467,277	\$ 378,621,404	\$ 1,179,551,817	\$ 126,623,955	10.7%
Increase (Decrease) in Fiduciary Net Investment Position	\$ 4,424,892	\$ (42,646,269)	\$ 164,845,332	\$ 126,623,955						
Percent Change in Fiduciary Net Investment Position	955.4%	-5.3%	43.5%	10.7%						
One Year Time Weighted Return - June 30, 2021	0.05%	-0.69%	40.60%	13.51%						
One Year Time Weighted Return - June 30, 2020	1.42%	10.13%	0.99%	7.59%						

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

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

- Cash and cash equivalents** fiduciary net investment position increased by \$4.4 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, 2021, decreased over the prior fiscal year to 0.05 percent, resulting in a decrease in interest income over the prior year. Short-term rates moved considerably lower during the previous fiscal year by a net of 225 basis points because of Fed actions. The Fed rates remained unchanged during the current fiscal year, but the continued low-rate environment had a negative impact on cash returns. The Fiduciary Net Investment Position of Cash and Cash Equivalents include accrued income and accrued expenses.
- Debt securities** fiduciary net investment position decreased by \$42.6 million. Net realized and unrealized losses for the fiscal year were \$25.9 million, which decreased fixed income invested balances. Contributions received were initially invested in cash and subsequently transferred and reinvested in debt and equity securities. Debt securities were sold in the amount of \$81.9 million and the proceeds were reinvested in equity securities as a result of the new asset allocation study discussed previously. To maintain target allocations throughout the fiscal year, equity securities were sold twice during the year and the net proceeds of \$56.5 million were reinvested in debt securities. In the current fiscal year, \$8.6 million of contributions received from DNR were invested in the fixed income portfolio. Interest, dividends, and other investment income net of investment expenses of \$22.2 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 (0.69) percent in the current fiscal year, which is significantly lower than the previous year return of 10.13 percent. During the current fiscal year, interest rates rose substantially, causing bond prices to decrease, which negatively impacted overall bond market returns. Credit spreads narrowed during the current fiscal year, which partially offset the reduced returns caused by the increasing rate environment. The combination of rising interest rates and the narrowing credit spreads caused the bond market returns to be significantly lower than the previous year. The current year performance was behind the return of its benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index, of (0.33) percent. The underperformance was due to a longer maturity profile of the portfolio versus its benchmark, leaving the portfolio more exposed to changes in interest rates.

- **Equity securities** fiduciary net investment position increased by \$164.8 million. Interest, dividends, and other investment income net of investment expenses of \$25.0 million was received by the CMEF and subsequently distributed to the beneficiary funds. As discussed previously, debt securities were sold and the proceeds were reinvested in equity securities. Asset allocation policy changes, coupled with various target allocation rebalancing, resulted in total net transfers in the equity portfolio of \$25.4 million.

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 2.4 percent. At the same time, the strategy attempts to minimize realized capital gains by limiting portfolio turnover. The total portfolio returned 40.60 percent during the fiscal year, which closely tracked its custom global developed-markets benchmark return of 40.63 percent.

The global equity markets had an incredible year, returning more than 40 percent one year after the onset of the COVID-19 pandemic. At the nadir of the pandemic, global equity markets declined in excess of 30 percent and the global economy entered a deep recession. Unemployment skyrocketed and gross domestic product (GDP) sharply contracted as large sections of the global economy were completely shut down. Unprecedented levels of stimulus and governmental support helped to minimize the impact of the recession on the U.S. economy. Markets were able to recover nearly all the ground lost due to the pandemic by September 2020. By the time news emerged that multiple vaccines had high efficacy against COVID-19 in late 2020, investors began looking through the depressed economic environment and toward an eventual return to normalcy in the quarters ahead. As countries rolled out inoculation programs in early 2021 and economies began to fully reopen, markets closed out the fiscal year at record highs.

The returns of the various capital markets, within which the WSIB invests, directly impacted the fair value of the Permanent Funds' fiduciary 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

Permanent Funds Statement of Fiduciary Net Investment Position - June 30, 2021

See notes to financial statements

	American Indian Scholarship Endowment	Agricultural School	Normal School	Common School	Scientific School	State University	Total	Percent of Total
ASSETS								
Investments								
CASH AND CASH EQUIVALENTS	\$ 23,383	\$ 1,305,997	\$ 277,999	\$ 2,460,618	\$ 815,002	\$ 5,000	\$ 4,887,999	0.4%
Commingled Monthly Bond Fund	350,534	175,476,912	202,282,843	155,258,756	197,842,636	26,609,332	757,821,013	58.0%
Commingled Monthly Equity Fund	-	125,887,225	145,140,925	111,676,347	141,602,153	19,160,083	543,466,733	41.6%
Total Investments	373,917	302,670,134	347,701,767	269,395,721	340,259,791	45,774,415	1,306,175,745	100.0%
Investment Earnings Receivable	916	833,907	961,258	738,819	939,147	126,649	3,600,696	
Total Assets	374,833	303,504,041	348,663,025	270,134,540	341,198,938	45,901,064	1,309,776,441	
LIABILITIES								
Distributions and Other Payables	916	833,901	961,260	738,796	939,147	126,649	3,600,669	
FIDUCIARY NET INVESTMENT POSITION	\$ 373,917	\$ 302,670,140	\$ 347,701,765	\$ 269,395,744	\$ 340,259,791	\$ 45,774,415	\$ 1,306,175,772	

Permanent Funds Statement of Changes in Fiduciary Net Investment Position - Year Ended June 30, 2021

See notes to financial statements

	American Indian Scholarship Endowment	Agricultural School	Normal School	Common School	Scientific School	State University	Total
Net Investment Income							
Investment Income							
Interest, Dividends and Other Investment Income	\$ 10,384	\$ 10,961,110	\$ 12,665,338	\$ 9,753,179	\$ 12,356,946	\$ 1,669,885	\$ 47,416,842
Net Realized Capital Gains	-	6,860,080	8,461,549	6,712,914	7,980,080	1,079,741	31,094,364
Unrealized Gains (Losses)	(12,959)	18,798,439	21,287,197	16,177,986	20,967,065	2,828,822	80,046,550
Less:							
Investment Expenses	(44)	(1,171)	(1,163)	(997)	(1,285)	(190)	(4,850)
WSIB Operating Expenses	(65)	(49,419)	(57,162)	(44,049)	(55,745)	(7,542)	(213,982)
Net Investment Income	(2,684)	36,569,039	42,355,759	32,599,033	41,247,061	5,570,716	158,338,924
Other Changes in Fiduciary Net Investment Position							
Contributions	-	4,509,000	2,913,000	855,000	4,510,000	268,000	13,055,000
Withdrawals and Distributions	(3,883)	(10,910,509)	(12,607,013)	(7,286,493)	(12,299,918)	(1,662,153)	(44,769,969)
Increase (Decrease) in Fiduciary Net Investment Position	(6,567)	30,167,530	32,661,746	26,167,540	33,457,143	4,176,563	126,623,955
FIDUCIARY 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
FIDUCIARY NET INVESTMENT POSITION, JUNE 30, 2021	\$ 373,917	\$ 302,670,140	\$ 347,701,765	\$ 269,395,744	\$ 340,259,791	\$ 45,774,415	\$ 1,306,175,772

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 Fiduciary 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 fiduciary net investment position. Liabilities resulting from these transactions are also included in each fund's fiduciary 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 2021 was \$160,629. Securities lending expenses during the fiscal year totaled \$32,220.

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, 2021, 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 25 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, 2021. 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, 2021.

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, 2021, consisted of \$177.3 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 report the net lending income activity within the fund as increases in the share price of each fund, until distributed to the beneficiary funds. On June 30, 2021, the fair value of the securities on loan in the CMEF was approximately \$12.4 million. The securities on loan are reported in Schedule 3 in their respective categories. At June 30, 2021, cash collateral received totaling \$5.4 million was reported as a securities lending obligation, and the fair value of the reinvested cash collateral totaling \$5.4 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.

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, 2021.

In Millions:	Cash Collateral	Non-Cash Collateral	Total
Repurchase Agreements	\$ 3.0	\$ -	\$ 3.0
Yankee CD	1.2	-	1.2
Commercial Paper	0.6	-	0.6
U.S. Treasuries	-	7.5	7.5
Cash Equivalents and other	0.6	-	0.6
Total Collateral Held	\$ 5.4	\$ 7.5	\$ 12.9

During Fiscal Year 2021, securities lending transactions could be terminated on demand by either the Permanent Funds or the borrower. As of June 30, 2021, the collateral held had an average duration of 18.60 days and an average weighted final maturity of 43.32 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 2021, 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 2021, the Permanent Funds incurred no losses resulting from a default by either the borrowers or the securities lending agents.

Note 5. Derivative Instruments

The Permanent Funds are authorized to utilize various derivative financial instruments to purchase and hold mortgage backed securities. Derivative instrument transactions involve, to varying degrees, market and credit risk. Permanent Funds mitigate market risks arising from derivative instrument 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 instrument transactions are mitigated by selecting and monitoring creditworthy counterparties and collateral issuers.

At June 30, 2021, the only derivative instrument securities held directly by the Permanent Funds' CMBF were collateralized mortgage obligations of \$23.3 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

PERMANENT FUNDS

include, but are not limited to, Thomson Reuters, Bloomberg Valuation Services, 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, 2021:

	Fair Value
INVESTMENTS - PERMANENT FUNDS	
INVESTMENTS MEASURED AT NET ASSET VALUE	
Commingled Monthly Bond Fund	\$ 757,821,013
Commingled Monthly Equity Fund	543,466,733
Total Investments at Net Asset Value	<u>1,301,287,746</u>
Total Investments Measured at Fair Value	<u>\$ 1,301,287,746</u>

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 MSCI All Country World (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 25 percent of the duration of the portfolio's benchmark.

PERMANENT FUNDS

Asset Allocation and Benchmarking

During the current fiscal year, new asset allocation targets were established that increased Global Equity exposure by 10 percent. 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 detailed below. The benchmark for these funds is a combination of the Bloomberg Barclays U.S. Aggregate Bond Index and the MSCI World IMI in the weighted percentage allocations that represent the fund's target allocation.

Asset Class	Target	Range
Unrestricted Fixed Income	60%	55%-65%
Global Equity	40%	35%-45%

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.

PERMANENT FUNDS

Schedule 1: Commingled Monthly Bond Fund Schedule of Fiduciary Net Investment Position and Maturities

Investment Type	Total Fair Value	Maturity				Effective Duration	Credit Rating
		Less than 1 year	1-5 years	6-10 years	More than 10 years		
Mortgage and Other Asset Backed Securities	\$ 98,060,102	\$ 106,694	\$ 81,677,796	\$ 16,275,612	\$ -	3.7	Aaa
Corporate Bonds	328,653,998	9,608,231	115,328,259	90,692,800	113,024,708	8.7	Schedule 2
U.S. Government and Agency Securities	270,934,025	20,113,086	184,315,626	22,432,813	44,072,500	5.0	Aaa
Foreign Government and Agency Securities	41,476,850	-	36,770,000	-	4,706,850	5.6	Schedule 2
Total Debt Securities	739,124,975	\$ 29,828,011	\$ 418,091,681	\$ 129,401,225	\$ 161,804,058	6.48*	
Investments Not Required to be Categorized							
Cash and Cash Equivalents	17,240,299						
Investment Earnings Receivable	3,431,283						
Total Commingled Bond Fund Assets	759,796,557						
Distributions and other payables	(1,975,544)						
CMBF Fiduciary Net Investment Position - June 30, 2021	\$ 757,821,013						

* Duration excludes cash balances

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

Moody's Credit Rating	Foreign Government and Agency Securities	
	Corporate Bonds	Foreign Government and Agency Securities
Aaa	\$ 10,317,700	\$ 5,296,100
Aa1	4,904,950	-
Aa2	5,339,200	5,480,450
Aa3	29,149,900	5,229,550
A1	44,501,550	25,470,750
A2	70,506,869	-
A3	52,582,559	-
Baa1	50,499,100	-
Baa2	49,429,170	-
Baa3	11,423,000	-
Ba1 or Lower	-	-
Total	\$ 328,653,998	\$ 41,476,850

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

Classification	
Cash and Cash Equivalents	\$ 2,023,753
Common and Preferred Stock	525,235,954
Real Estate Investment Trusts	16,712,046
Depository Receipts and Other Miscellaneous	192,349
Total Investments	544,164,102
Income and Other Receivables	1,012,760
Collateral Held Under Securities Lending Agreements	5,444,914
Distributions and Other Payables	(1,710,129)
Obligations Under Securities Lending Agreements	(5,444,914)
CMEF Fiduciary Net Investment Position June 30, 2021	\$ 543,466,733

Schedule 4: Commingled Monthly Equity Fund Schedule of Foreign Currency

Foreign Currency Denomination	Investment Type In U.S. Dollar Equivalent			Percent of Total CMEF Funds Investments
	Cash and Cash Equivalents	Equity Securities	Total	
AUSTRALIAN DOLLAR	\$ 9,086	\$ 11,467,448	\$ 11,476,534	2.1%
CANADIAN DOLLAR	50,425	17,470,851	17,521,276	3.2%
SWISS FRANC	3,662	15,433,317	15,436,979	2.8%
EURO CURRENCY	188,816	51,724,795	51,913,611	9.6%
POUND STERLING	61,179	24,749,452	24,810,631	4.6%
HONG KONG DOLLAR	54,679	4,254,717	4,309,396	0.8%
JAPANESE YEN	355,058	36,580,116	36,935,174	6.8%
SWEDISH KRONA	9,580	6,739,363	6,748,943	1.2%
OTHER (MISC)	31,198	8,075,539	8,106,737	1.5%
Total Foreign Currency Exposure	\$ 763,683	\$ 176,495,598	\$ 177,259,281	32.6%



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, 2021, and the related notes to the financial statements, which collectively comprise the Permanent Funds' financial statements, and have issued our report thereon dated September 28, 2021.

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) as a basis for designing 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.

What inspires you, inspires us. Let's talk. | eidebailly.com

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

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 financial statements. 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.

The logo for Eide Bailly LLP is written in a cursive, handwritten style. The letters are dark and fluid, with the 'E' and 'B' being particularly prominent.

Boise, Idaho
September 28, 2021



99.99

5.412

71.45

+0.98

+1.25

64.25

GUARANTEED EDUCATION TUITION FUND



Independent Auditor's Report

To the Members of the Washington State Investment Board

Olympia, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the Guaranteed Education Tuition Fund of the state of Washington as managed by the Washington State Investment Board (the Guaranteed Education Tuition Fund), which comprise the statement of fiduciary net investment position as of June 30, 2021, and the related statement of changes in fiduciary 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.

What inspires you, inspires us. Let's talk. | eidebailly.com

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

GUARANTEED EDUCATION TUITION FUND

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 fiduciary net investment position of the Guaranteed Education Tuition Fund as of June 30, 2021, and the changes in fiduciary net investment position for the year then ended in conformity 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 a report dated September 28, 2021 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.



Boise, Idaho

September 28, 2021

What inspires you, inspires us. Let's talk. | eidebailly.com

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

Management Discussion and Analysis

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

The financial statements and footnotes follow this section of the report. The Statement of Fiduciary Net Investment Position provides information on the types of investments, assets, and liabilities of the GET Fund, as of June 30, 2021. The Statement of Changes in Fiduciary Net Investment Position provides information on investment performance and other increases and decreases in the fiduciary net investment position of the GET Fund, for the year ended June 30, 2021. The following table compares the fiduciary net investment position of each major investment classification at June 30, 2021, with those at June 30, 2020. 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 financial statements of the GET Fund.

General Market Commentary

The fiscal year began with the global economy amid a second wave of outbreaks related to the coronavirus (COVID-19) pandemic. The U.S. experienced steady declines in infection rates, while Europe experienced an increase. The significant progress towards a vaccine in the fall contributed to strong first fiscal quarter results in the global equity markets. Monetary policy goals of the U.S. Federal Reserve (Fed) are to foster economic conditions that achieve both stable prices and maximum sustainable employment. To achieve these goals, the Fed announced they were shifting from a set to an average inflation target. This allowed inflation to temporarily exceed the established set inflation targets.

Global equity markets continued to rally in the second quarter of the fiscal year. The U.S. election results, combined with the progress of COVID-19 vaccines, helped the more cyclical segments of the market recover. The pandemic took a turn for the worse during this period, with increasing infection rates in Europe and the U.S. in the second quarter topping previous highs. Governments implemented new stringent lockdown measures to slow the spread of COVID-19. The U.S. passed a \$900 billion stimulus package during this quarter, which included a \$600 cash disbursement to qualified individuals, more funding for the Paycheck Protection Program, and a 10-week extension of unemployment benefits. Emerging markets countries outperformed the developed markets in the second quarter, with the Morgan Stanley Capital International (MSCI) Emerging Markets (EM) Investable Market Index (IMI) returning 20.0 percent, and the MSCI Developed World IMI returned 15.1 percent. With global investors in a risk-on mood, the 10-year U.S. Treasury rate increased by 23 basis points during the second quarter of the fiscal year to end at 0.9 percent.

The third quarter of the fiscal year was marked by two key events. One was the Democratic victory in the state of Georgia, which shifted the leadership in the senate, enabling further massive U.S. fiscal stimulus to be enacted. The other major event was the success of the vaccine roll-out. Business surveys improved in March, with manufacturing expanding strongly in both Europe and the U.S. The U.S. service sector continued to perform well, but the most notable improvement was in the United Kingdom (UK) service sector, with businesses noting improvements in consumer confidence and signs of pent-up demand. The Fed again kept interest rates unchanged and made no major changes to the Fed Bond Buying Program. The goal of this program is to maintain liquidity in the

GUARANTEED EDUCATION TUITION FUND

financial markets. Reductions in the amount of bonds purchased by the Fed in the secondary markets could potentially impact quantitative easing, leading to higher interest rates. Despite a lack of direct action from the Fed, U.S. interest rates rose considerably as investors became increasingly concerned about inflation. The 10-year U.S. Treasury rate increased by 83 basis points to end the quarter at 1.7 percent, which marked the highest month-end close since 1.9 percent at the end of December 2019.

The last quarter of the fiscal year ended with global equity markets continuing to rise as vaccination rates accelerated in most developed economies. Leading economic indicators released in June 2021 showed the economy continued to recover. The MSCI World Developed IMI returned a robust 40.6 percent over the fiscal year. The MSCI U.S. IMI returned 43.8 percent, while the MSCI EM IMI trailed close behind, returning 43.2 percent for the fiscal year. The Fed kept their policy rate at 0.25 percent and indicated it would maintain the current pace of bond purchases under the Fed Bond Program until there is substantial progress on the employment and inflation statistics. The 10-year U.S. Treasury rate decreased by 27 basis points during the last quarter to end the fiscal year at 1.5 percent, which is 81 basis points higher than last fiscal year. Credit spreads for both high yield and investment grade bonds declined in tandem with the risk-on mood of global equities. High yield spreads narrowed 42 basis points to end at 268, down 358 basis points over the fiscal year. Investment grade spreads tightened 11 basis points, ending at 80 basis points, narrower by 70 basis points for the fiscal year.

As shown in the following table, the fiduciary net investment position of the GET Fund increased by \$251.8 million during the fiscal year ended June 30, 2021. Net contributions by the GET Fund participants during the year increased fiduciary net investment position by \$8.2 million. Net investment income of \$243.6 million increased the fiduciary net investment position and was reinvested within the various asset classes.

Net investment income was \$144.3 million higher than the previous fiscal year, mainly from increases in realized and unrealized gains. The current fiscal year return for the GET Fund was 16.8 percent, compared to the prior fiscal year return of 7.4 percent. The increase in overall returns was due to strong equity returns and was the main contributor to the large increase in net market related gains.

Contributions increased by \$4.6 million during the current fiscal year compared to the previous fiscal year. Contributions and withdrawals from the funds are made by the Washington State Achievement Council (WSAC) based on individual contribution and withdrawal requests. These requests can vary substantially from year to year based on participant needs.

GUARANTEED EDUCATION TUITION FUND

	Summarized Change in Fiduciary Net Investment Position and Returns by Asset Class									
	Fiscal Year End June 30, 2021				Fiscal Year End June 30, 2020				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 Fiduciary 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%
Investment Income:										
Interest, Dividends, and Other Investment Income	26,470	-	12,989,094	13,015,564	269,670	93	16,207,006	16,476,769	(3,461,205)	-21.0%
Realized and Unrealized Gains (Losses)	-	18,867,893	212,336,290	231,204,183	-	53,422,296	30,329,984	83,752,280	147,451,903	176.1%
Less: Investment Expenses	(291,698)	(2,575)	(282,304)	(576,577)	(311,331)	(17,145)	(573,385)	(901,861)	(325,284)	-36.1%
Net Investment Income (Loss)	(265,228)	18,865,318	225,043,080	243,643,170	(41,661)	53,405,244	45,963,605	99,327,188	144,315,982	145.3%
Net Contribution (Withdrawals)	8,179,254	-	-	8,179,254	3,546,236	-	-	3,546,236	4,633,018	130.6%
Transfers Between Asset Classes	(235,720)	52,002,575	(51,766,855)	-	(22,308,637)	288,017,052	(265,708,415)	-	-	NA
Ending Fiduciary Net Investment Position (**)	\$ 27,995,043	\$ 945,278,403	\$ 736,131,329	\$ 1,709,404,775	\$ 20,316,737	\$ 874,410,510	\$ 562,855,104	\$ 1,457,582,351	\$ 251,822,424	17.3%
Increase in Fiduciary Net Investment Position	\$ 7,678,306	\$ 70,867,893	\$ 173,276,225	\$ 251,822,424						
Percent Change in Fiduciary Net Investment Position	37.8%	8.1%	30.8%	17.3%						
One Year Time Weighted Return - June 30, 2021	0.03%	2.21%	41.37%	16.84%						
One Year Time Weighted Return - June 30, 2020	1.37%	7.79%	1.16%	7.40%						

(*) Includes cash balances used for trading purposes

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

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

- Cash and cash equivalents** fiduciary net investment position increased by \$7.7 million, mainly due to contributions received from the WSAC. Cash balances represent less than 2 percent of total investments and are within policy ranges. Contributions received are invested into money market funds and subsequently reinvested in longer-term securities to maintain target asset allocations. 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, 2021, decreased over the prior fiscal year to 0.03 percent, resulting in a decrease in interest income over the prior year. Short-term rates moved considerably lower during the previous fiscal year by a net of 225 basis points because of Fed actions. The Fed rates remained unchanged during the current fiscal year, but the continued low-rate environment had a negative impact on cash returns. The Fiduciary Net Investment Position of Cash and Cash Equivalents include accrued income and accrued expenses.
- Debt securities** fiduciary net investment position increased by \$70.9 million. Equity securities were sold and the resulting proceeds of \$52.0 million were reinvested in debt securities to maintain strategic asset allocation targets. Net realized and unrealized gains increased the fiduciary net investment position by \$18.9 million as a result of positive returns in the fixed income portfolio. The return of the portfolio for the current fiscal year was 2.2 percent, which is a significant decrease over the prior fiscal year return of 7.8 percent. The GET 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. The decrease in returns from the prior fiscal year contributed to the decrease of net realized and unrealized gains in the current year.

GUARANTEED EDUCATION TUITION FUND

- Performance of the Bond Fund for the fiscal year ended June 30, 2021, was 2.2 percent, which slightly underperformed its benchmark, the Bloomberg Barclays U.S. Intermediate Credit Index, of 2.3 percent. During the current fiscal year, interest rates rose substantially, causing bond prices to decrease, which negatively impacted overall bond market returns. Credit spreads narrowed during the current fiscal year, which partially offset the reduced returns caused by the increasing rate environment. The combination of rising interest rates and the narrowing credit spreads caused the bond market returns to be significantly lower than the previous year, but still resulted in an overall positive return.

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

- **Equity securities** fiduciary net investment position increased by \$173.3 million. Equity securities were sold and the resulting proceeds of \$52.0 million were reinvested in debt securities to maintain strategic asset allocation targets. Net realized and unrealized gains increased the fiduciary net investment position by \$212.3 million due to a significant increase in equity returns over the fiscal year. The overall investment return for equity securities in the current fiscal year of 41.4 percent which was a significant increase from the prior fiscal year return of 1.2 percent.

The GET global equity portfolio is passively managed and structured to closely track the performance of its global benchmark. The global equity benchmark, MSCI All Country World (ACWI) IMI with U.S. Gross, returned 41.3 percent in the current fiscal year. The equity portfolio returned 41.4 percent, slightly overperforming the global equity benchmark.

The global equity markets had an incredible year returning more than 40 percent one year after the onset of the COVID-19 pandemic. At the nadir of the pandemic, global equity markets declined in excess of 30 percent and the global economy had entered a deep recession. Unemployment skyrocketed and gross domestic product (GDP) sharply contracted as large sections of the global economy were completely shut down. Unprecedented levels of stimulus and governmental support helped to minimize the impact of the recession on the U.S. economy. Markets were able to recover nearly all the ground lost due to the pandemic by September 2020. By the time news emerged that multiple vaccines had high efficacy against COVID-19 in late 2020, investors began looking through the depressed economic environment and toward an eventual return to normalcy in the quarters ahead. As countries rolled out inoculation programs in early 2021 and economies began to fully reopen, markets closed out the fiscal year at record highs.

GUARANTEED EDUCATION TUITION FUND

As shown in the following table, securities on loan increased by \$5.6 million and collateral held under securities lending agreements increased accordingly. The substantial performance in the equity markets during the current fiscal year created downward pressure on utilization and spreads in securities lending, further reducing the specials market. The volatility in the market caused many end-users to reassess their exposures to heavily shorted names. In the international equity markets, there was a reduced demand from borrowers driven by reduced dividends paid by companies in 2020, and continued tax harmonization and regulatory changes.

Cash collateral held under securities lending agreements are reported as an asset and a liability in the accompanying Statement of Fiduciary Net Investment Position.

	June 30, 2021	June 30, 2020	Increase	Percent Change
Securities on Loan Fiscal Year End	\$ 16,483,098	\$ 10,895,573	\$ 5,587,525	51.3%
Cash Collateral Held Under Securities Lending Agreements	7,303,172	5,412,983	1,890,189	
Non-Cash Collateral Held Under Securities Lending Agreements	10,010,351	5,825,894	4,184,457	
Total Collateral Held	\$ 17,313,523	\$ 11,238,877	\$ 6,074,646	54.1%

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 fiduciary 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.

GUARANTEED EDUCATION TUITION FUND

GET Fund Statement of Fiduciary Net Investment Position - June 30, 2021

See notes to financial statements

		Percent of Total
ASSETS		
Investments		
CASH AND CASH EQUIVALENTS	\$ 31,636,655	1.8%
DEBT SECURITIES		
Commingled Intermediate Credit	945,278,401	
Total Debt Securities	945,278,401	55.4%
EQUITY SECURITIES		
Common and Preferred Stock	701,597,435	
Real Estate Investment Trusts	19,358,865	
Depository Receipts and Other	9,139,108	
Total Equity Securities	730,095,408	42.8%
Total Investments	1,707,010,464	100.0%
Collateral Held Under Securities Lending Agreements	7,303,172	
Pending Trades and Other Investment Receivables	2,456,767	
Total Assets	1,716,770,403	
LIABILITIES		
Obligations Under Securities Lending Agreements	7,303,172	
Pending Trades and Other Investment Payables	62,456	
Total Liabilities	7,365,628	
FIDUCIARY NET INVESTMENT POSITION	\$ 1,709,404,775	

GUARANTEED EDUCATION TUITION FUND

GET Fund Statement of Changes in Fiduciary Net Investment Position - Year Ended June 30, 2021

See notes to financial statements

Net Investment Income	
Investment Income	
Interest, Dividends and Other Investment Income	\$ 12,915,160
Securities Lending Income	100,404
Net Realized Capital Gains	17,351,287
Unrealized Gains	213,852,896
Less:	
Securities Lending Rebates and Fees	(19,942)
Investment Expenses	(287,237)
WSIB Operating Expenses	(269,398)
Net Investment Income	<u>243,643,170</u>
Net Contribution	<u>8,179,254</u>
Increase in Fiduciary Net Investment Position	251,822,424
Fiduciary Net Investment Position - June 30, 2020	<u>1,457,582,351</u>
Fiduciary Net Investment Position - June 30, 2021	<u>\$ 1,709,404,775</u>

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 Fiduciary 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 Fiduciary 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 Fiduciary 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 2021 was \$0.1 million. Securities lending expenses during the fiscal year totaled \$0.02 million.

GUARANTEED EDUCATION TUITION FUND

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, 2021, 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 25 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, 2021. 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

GUARANTEED EDUCATION TUITION FUND

Aaa to Baa or a Standard and Poor's rating of AAA to BBB. The rated debt investments, as of June 30, 2021, 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, 2021.

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, 2021, was approximately \$16.5 million. The securities on loan remain in the Statement of Fiduciary Net Investment Position in their respective categories. At June 30, 2021, cash collateral received totaling \$7.3 million is reported as a securities lending obligation, and the fair value of the reinvested cash collateral totaling \$7.3 million is reported as security lending collateral in the Statement of Fiduciary 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 Fiduciary Net Investment Position. Total cash and securities received as collateral at June 30, 2021, was \$17.3 million.

Debt and equity securities were loaned and collateralized by the GET Fund's agent, with cash and U.S. Government or U.S. Agency Securities, including U.S. Agency Mortgage-Backed Securities (exclusive of letters of credit). When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest of the loaned securities. The following table summarizes the securities held from reinvestment of cash collateral and securities received as collateral at June 30, 2021.

GUARANTEED EDUCATION TUITION FUND

In Millions:	Cash Collateral	Non-Cash Collateral	Total
Repurchase Agreements	\$ 4.1	\$ -	\$ 4.1
Yankee CD	1.5	-	1.5
Commercial Paper	0.9	-	0.9
U.S. Treasuries	-	9.6	9.6
Cash Equivalents and Other	0.8	-	0.8
Mortgage Backed Securities	-	0.4	0.4
Total Collateral Held	\$ 7.3	\$ 10.0	\$ 17.3

During Fiscal Year 2021, securities lending transactions could be terminated on demand by either the GET Fund or the borrower. As of June 30, 2021, the cash collateral held had an average duration of 18.60 days and an average weighted final maturity of 43.32 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 2021, 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 2021, the GET Fund incurred no losses resulting from a default by either the borrowers or the securities lending agents.

Note 5. Derivative Instruments

The GET Fund is authorized to utilize various derivative financial instruments, including financial futures and forward contracts. Derivative instrument 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 Fiduciary Net Investment Position. As of June 30, 2021, the derivative instruments held by the GET Fund are considered investment derivative instruments and not hedging derivative instruments for accounting purposes.

Derivative instruments are generally used to achieve the desired market exposure of a security, index, or currency. Derivative instrument 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

GUARANTEED EDUCATION TUITION FUND

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, 2021, the GET Fund had no outstanding forward currency contracts.

Inherent in the use of OTC derivative instruments, the GET Fund is exposed to counterparty credit risk on all open OTC positions. Counterparty credit risk is the risk that a derivative instrument counterparty may fail to meet its payment obligation under the derivative instrument contract. As of June 30, 2021, the GET Fund had no open OTC derivative instruments and, accordingly, no counterparty credit risk. Derivative instruments which are exchange traded are not subject to counterparty credit risk.

	Changes in Fair Value - Included in Investment Income		Fair Value at June 30, 2021 - Investment	Notional
	Classification	Amount	Amount	
FUTURES CONTRACTS:				
Equity Index Futures	Investment	\$ 1,782,764	\$ 3,149	1,650

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.

GUARANTEED EDUCATION TUITION FUND

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 daily:

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.

GUARANTEED EDUCATION TUITION FUND

The following table presents fair value measurements as of June 30, 2021:

	Fair Value Measurements Using:			
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
INVESTMENTS				
EQUITY SECURITIES	\$ 730,095,408	\$ 728,744,704	\$ 1,059,347	\$ 291,357
Total Investments By Fair Value Level	730,095,408	728,744,704	1,059,347	291,357
INVESTMENTS MEASURED AT NET ASSET VALUE				
Commingled Intermediate Credit	945,278,401			
Total Investments Measured at Fair Value	\$ 1,675,373,809			
OTHER ASSETS (LIABILITIES) AT FAIR VALUE				
Collateral Held Under Securities Lending Agreements	\$ 7,303,172	\$ -	\$ 7,303,172	\$ -
Margin Variation Receivable - Futures Contracts	3,149	3,149	-	-
Obligations Under Securities Lending Agreements	(7,303,172)	-	(7,303,172)	-
Total Other Assets (Liabilities) Measured at Fair Value	\$ 3,149	\$ 3,149	\$ -	\$ -

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 daily. 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

GUARANTEED EDUCATION TUITION FUND

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 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.

GUARANTEED EDUCATION TUITION FUND

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%

GUARANTEED EDUCATION TUITION FUND

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	\$ 945,278,401	\$ 87,879,275	\$ 496,242,180	\$ 346,009,151	\$ 15,147,795	4.8	Schedule 2
Investments Not Required to be Categorized							
Equity Securities	730,095,408						
Cash and Cash Equivalents	31,636,655						
Total Investments Not Categorized	761,732,063						
Total Investments	\$ 1,707,010,464						

* Duration excludes cash and cash equivalents

Schedule 2: Additional Credit Rating Disclosures

Moody's Equivalent Credit Rating	Commingled Intermediate Credit	
		Total Fair Value
Aaa	\$	53,281,639
Aa1		17,684,263
Aa2		20,285,441
Aa3		71,626,313
A1		121,335,919
A2		145,648,550
A3		137,971,055
Baa1		116,152,086
Baa2		141,952,919
Baa3		112,038,931
Ba1 or Lower		7,301,285
Total	\$	945,278,401

GUARANTEED EDUCATION TUITION FUND

Schedule 3: Foreign Currency Exposure by Currency

Foreign Currency Denomination	Investment Type In U.S. Dollar Equivalent			Percent of Total GET Funds Investments
	Cash and Cash Equivalents	Equity Securities	Total	
AUSTRALIAN DOLLAR	\$ 74,720	\$ 14,248,846	\$ 14,323,566	0.8%
BRAZILIAN REAL	49,875	4,851,140	4,901,015	0.3%
CANADIAN DOLLAR	58,596	20,948,206	21,006,802	1.2%
SWISS FRANC	7,648	18,126,982	18,134,630	1.1%
DANISH KRONE	5,433	4,896,491	4,901,924	0.3%
EURO CURRENCY	104,435	61,356,455	61,460,890	3.6%
POUND STERLING	103,275	29,220,355	29,323,630	1.7%
HONG KONG DOLLAR	105,114	29,072,022	29,177,136	1.7%
INDIAN RUPEE	331,121	9,861,144	10,192,265	0.6%
JAPANESE YEN	241,083	46,368,701	46,609,784	2.7%
SOUTH KOREAN WON	87,231	13,005,252	13,092,483	0.8%
SWEDISH KRONA	15,048	8,012,148	8,027,196	0.5%
NEW TAIWAN DOLLAR	186,174	14,251,817	14,437,991	0.8%
OTHER - MISCELLANEOUS	1,191,137	24,052,303	25,243,440	1.5%
Total Foreign Currency Exposure	\$ 2,560,890	\$ 298,271,862	\$ 300,832,752	17.6%



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, 2021, 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 28, 2021.

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) as a basis for designing 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.

What inspires you, inspires us. Let's talk. | eidebailly.com

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

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 financial statements. 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.

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, professional style.

Boise, Idaho
September 28, 2021



DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST FUND



Independent Auditor's Report

To the Members of the Washington State Investment Board

Olympia, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the Developmental Disabilities Endowment Trust Fund (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 fiduciary net investment position as of June 30, 2021, and the related statement of changes in fiduciary 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

What inspires you, inspires us. Let's talk. | eidebailly.com

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

DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST FUND

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 fiduciary net investment position of the Developmental Disabilities Endowment Trust Fund as of June 30, 2021, and the changes in fiduciary net investment position for the year then ended in conformity 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 a report dated September 28, 2021, 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.



Boise, Idaho
September 28, 2021

What inspires you, inspires us. Let's talk. | eidebailly.com

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

DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST FUND

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 Fiduciary Net Investment Position provides information on the types of investments, assets, and liabilities of the DDEF as of June 30, 2021. The Statement of Changes in Fiduciary Net Investment Position provides information on investment performance and other increases and decreases in the fiduciary net investment position of the DDEF for the year ended June 30, 2021. The following table compares the fiduciary net investment position of each major investment classification at June 30, 2021, with those at June 30, 2020. 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.

General Market Commentary

The fiscal year began with the global economy amid a second wave of outbreaks related to the coronavirus (COVID-19) pandemic. The U.S. experienced steady declines in infection rates, while Europe experienced an increase. The significant progress towards a vaccine in the fall contributed to strong first fiscal quarter results in the global equity markets. Monetary policy goals of the U.S. Federal Reserve (Fed) are to foster economic conditions that achieve both stable prices and maximum sustainable employment. To achieve these goals, the Fed announced they were shifting from a set to an average inflation target. This allowed inflation to temporarily exceed the established set inflation targets.

Global equity markets continued to rally in the second quarter of the fiscal year. The U.S. election results, combined with the progress of COVID-19 vaccines, helped the more cyclical segments of the market recover. The pandemic took a turn for the worse during this period, with increasing infection rates in Europe and the U.S. in the second quarter topping previous highs. Governments implemented new stringent lockdown measures to slow the spread of COVID-19. The U.S. passed a \$900 billion stimulus package during this quarter, which included a \$600 cash disbursement to qualified individuals, more funding for the Paycheck Protection Program, and a 10-week extension of unemployment benefits. Emerging markets countries outperformed the developed markets in the second quarter, with the Morgan Stanley Capital International (MSCI) Emerging Markets (EM) Investable Market Index (IMI) returning 20.0 percent, and the MSCI Developed World IMI returned 15.1 percent. With global investors in a risk-on mood, the 10-year U.S. Treasury rate increased by 23 basis points during the second quarter of the fiscal year to end at 0.9 percent.

The third quarter of the fiscal year was marked by two key events. One was the Democratic victory in the state of Georgia, which shifted the leadership in the senate, enabling further massive U.S. fiscal stimulus to be enacted. The other major event was the success of the vaccine roll-out. Business surveys improved in March, with manufacturing expanding strongly in both Europe and the U.S. The U.S. service sector continued to perform well, but the most notable improvement was in the United Kingdom (UK) service sector, with businesses noting improvements in consumer confidence and signs of pent-up demand. The Fed again kept interest rates unchanged and made no major changes to the Fed Bond Buying Program. The goal of this program is to maintain liquidity in the

DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST FUND

financial markets. Reductions in the amount of bonds purchased by the Fed in the secondary markets could potentially impact quantitative easing, leading to higher interest rates. Despite a lack of direct action from the Fed, U.S. interest rates rose considerably as investors became increasingly concerned about inflation. The 10-year U.S. Treasury rate increased by 83 basis points to end the quarter at 1.7 percent, which marked the highest month-end close since 1.9 percent at the end of December 2019.

The last quarter of the fiscal year ended with global equity markets continuing to rise as vaccination rates accelerated in most developed economies. Leading economic indicators released in June 2021 showed the economy continued to recover. The MSCI World Developed IMI returned a robust 40.6 percent over the fiscal year. The MSCI U.S. IMI returned 43.8 percent, while the MSCI EM IMI trailed close behind, returning 43.2 percent for the fiscal year. The Fed kept their policy rate at 0.25 percent and indicated it would maintain the current pace of bond purchases under the Fed Bond Program until there is substantial progress on the employment and inflation statistics. The 10-year U.S. Treasury rate decreased by 27 basis points during the last quarter to end the fiscal year at 1.5 percent, which is 81 basis points higher than last fiscal year. Credit spreads for both high yield and investment grade bonds declined in tandem with the risk-on mood of global equities. High yield spreads narrowed 42 basis points to end at 268, down 358 basis points over the fiscal year. Investment grade spreads tightened 11 basis points, ending at 80 basis points, narrower by 70 basis points for the fiscal year.

As shown in the following table, the fiduciary net investment position of the DDEF increased by \$23.1 million for the fiscal year ended June 30, 2021. Participants' net contributions to the DDEF during the year increased fiduciary net investment position by \$4.1 million and these contributions were invested in Balanced Funds. Net realized and unrealized gains increased the fiduciary net investment position of the fund by \$16.7 million. The remaining increase was attributable to net investment income reinvested within the fund.

Net investment income increased by 229.8 percent from the previous fiscal year, mainly due to increases in net realized and unrealized gains within the Balanced Fund portfolio. Realized and unrealized gains increased by 292 percent from the previous year as the result of significant increases in overall returns from the prior year, which was the result of strong global equity markets as discussed previously. The current fiscal year return for the DDEF was 23.3 percent, compared to the prior year return of 7.9 percent.

Contributions increased by \$2.8 million during the current fiscal year compared to the previous fiscal year. Contributions and withdrawals from the funds are made by the Department of Commerce based on individual participant contributions made and withdrawals requested. These transactions can vary substantially from year to year based on participant needs.

DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST FUND

	Summarized Change in Fiduciary Net Investment Position and Returns by Asset Class										Year Over Year Change	
	Fiscal Year End June 30, 2021					Fiscal Year End June 30, 2020						
	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 Fiduciary 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%
Investment Income:												
Interest, Dividends, and Other Investment Income	93	-	1,871	2,259,011	2,260,975	635	93	2,267	1,501,474	1,504,469	756,506	50.3%
Realized and Unrealized Gains (Losses)	-	205,671	1,649,710	14,891,255	16,746,636	-	671,973	219,343	3,380,052	4,271,368	12,475,268	292.1%
Less: Investment Expenses	(81)	(1,553)	(2,435)	(15,430)	(19,499)	(97)	(1,788)	(2,641)	(13,801)	(18,327)	1,172	6.4%
Net Investment Income (Loss)	12	204,118	1,649,146	17,134,836	18,988,112	538	670,278	218,969	4,867,725	5,757,510	13,230,602	229.8%
Net Amount Contributed	4,065,473	-	-	-	4,065,473	1,264,833	-	-	-	1,264,833	2,800,640	221.4%
Transfers to Other Asset Classes	(4,066,767)	(1,227,472)	(1,757,224)	7,051,463	-	(1,267,229)	203,695	(199,464)	1,262,998	-	NA	NA
Ending Fiduciary Net Investment Position	\$ 26,312	\$ 8,485,114	\$ 4,945,810	\$ 89,140,243	\$ 102,597,479	\$ 27,594	\$ 9,508,468	\$ 5,053,888	\$ 64,953,944	\$ 79,543,894	\$ 23,053,585	29.0%
Increase (Decrease) in Fiduciary Net Investment Position	\$ (1,282)	\$ (1,023,354)	\$ (108,078)	\$ 24,186,299	\$ 23,053,585							
Percent Change in Fiduciary Net Investment Position	-4.6%	-10.8%	-2.1%	37.2%	29.0%							
One Year Time Weighted Return - June 30, 2021	0.1%	2.2%	41.1%	24.8%	23.3%							
One Year Time Weighted Return - June 30, 2020	1.4%	7.7%	1.5%	8.2%	7.9%							

(*) Fiduciary net investment position includes accrued income and expenses

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

- Cash and cash equivalents** fiduciary 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, 2021, decreased over the prior fiscal year to 0.1 percent, resulting in a decrease in interest income over the prior year. Short-term rates moved considerably lower during the previous fiscal year by a net of 225 basis points because of Fed actions. The Fed rates remained unchanged during the current fiscal year, but the continued low-rate environment had a negative impact on cash returns. The Fiduciary Net Investment Position of Cash and Cash Equivalents include accrued income and accrued expenses.
- Debt securities** fiduciary net investment position decreased by \$1.0 million, almost entirely due to a net withdrawal from the fund during the current fiscal year. The Department of Commerce (DOC) requested a transfer of funds from the State Endowment Trust Fund to the Private Endowment Trust Fund during the fiscal year. This transfer reimbursed the private accounts for disbursements made and allocable to state matching funds. A sale of \$1.6 million of debt securities was done to satisfy this request and the proceeds were reinvested in Balanced Funds. In addition, equity securities were sold during the current fiscal year and the resulting proceeds of \$0.4 million were reinvested in debt securities 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. The decrease in returns from the prior fiscal year contributed to the decrease of net realized and unrealized gains in the current year.

Performance of the Bond Fund for the fiscal year ended June 30, 2021, was 2.2 percent, which slightly underperformed its benchmark, the Bloomberg Barclays U.S. Intermediate Credit Index, of 2.3 percent. During the current fiscal year, interest rates rose substantially, causing bond prices to decrease, which negatively impacted overall bond market returns. Credit spreads narrowed during the current fiscal year, which partially offset the reduced

DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST FUND

returns caused by the increasing rate environment. The combination of rising interest rates and the narrowing credit spreads caused the bond market returns to be significantly lower than the previous year, but still resulted in an overall positive return.

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

- **Equity securities** fiduciary net investment position decreased slightly from the prior fiscal year. Equity securities were sold and the proceeds of \$1.8 million were primarily reinvested in Balanced Funds. As discussed previously, the DOC requested a transfer from the State to Private Endowment Trust Funds which comprised much of this rebalancing transaction. Realized and unrealized gains increased the portfolio by \$1.6 million as the result of positive investment returns within the portfolio. The overall investment return for equity securities in the current fiscal year was 41.1 percent which was a significant increase from the prior fiscal year return of 1.5 percent. As of the fiscal year end, the equity portfolio closely tracked its benchmark, the MSCI All Country World (ACWI) IMI with U.S. Gross, which returned 41.3 percent during the period.

The global equity markets had an incredible year, returning more than 40 percent one year after the onset of the COVID-19 pandemic. At the nadir of the pandemic, global equity markets declined more than 30 percent and the global economy entered a deep recession. Unemployment skyrocketed and gross domestic product (GDP) sharply contracted as large sections of the global economy were completely shut down. Unprecedented levels of stimulus and governmental support helped to minimize the impact of the recession on the U.S. economy. Markets were able to recover nearly all the ground lost due to the pandemic by September 2020. By the time news emerged that multiple vaccines had high efficacy against COVID-19 in late 2020, investors began looking through the depressed economic environment and toward an eventual return to normalcy in the quarters ahead. As countries rolled out inoculation programs in early 2021 and economies began to fully reopen, markets closed out the fiscal year at record highs.

- **Balanced Funds** fiduciary net investment position increased by \$24.2 million. New private trust fund participant contributions of \$4.1 million and a \$3.0 million transfer request from the DOC, as discussed previously, increased the invested balances. Realized and unrealized gains increased the portfolio by \$14.9 million as the result of positive investment returns. The remaining increase was due to the reinvestment of net income within the Balanced Fund. The fund is invested for the purposes 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 24.8 percent, which was a significant increase from the prior fiscal year return of 8.2 percent. As a Balanced Fund, strong returns from equity markets managed to offset the lower returns in fixed income markets. 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, also returned 24.8 percent for the fiscal year.

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

DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST FUND

The returns of the various capital markets, within which the WSIB invests, directly impacted the fair value of the DDEF fiduciary 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.

DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST FUND

DDEF Statement of Fiduciary Net Investment Position - June 30, 2021

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	\$ 16,718	\$ 9,594	\$ 26,312	0.0%
DEBT SECURITIES				
Commingled Intermediate Credit	8,485,115	-	8,485,115	8.3%
EQUITY SECURITIES				
Commingled Equity Index Funds	4,946,164	-	4,946,164	4.8%
BALANCED FUNDS				
Commingled Balanced Trust	-	89,140,243	89,140,243	86.9%
Total Investments	13,447,997	89,149,837	102,597,834	100.0%
LIABILITIES				
Accrued Expenses Payable	355	-	355	
FIDUCIARY NET INVESTMENT POSITION	\$ 13,447,642	\$ 89,149,837	\$ 102,597,479	

DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST FUND

DDEF Statement of Changes in Fiduciary Net Investment Position - Year Ended June 30, 2021

See notes to financial statements

	Developmental Disabilities Endowment Trust Fund State		Developmental Disabilities Endowment Trust Fund Private		Total
Net Investment Income					
Investment Income					
Interest, Dividends and Other Investment Income	\$	1,914	\$	2,259,061	\$ 2,260,975
Net Realized Capital Gains		1,089,229		-	1,089,229
Unrealized Gains		766,152		14,891,255	15,657,407
Less:					
Investment Expenses		(1,646)		(2,380)	(4,026)
WSIB Operating Expenses		(15,473)		-	(15,473)
Net Investment Income		1,840,176		17,147,936	18,988,112
Net Amount Contributed		15,473		4,050,000	4,065,473
Net Amount Transferred		(2,988,699)		2,988,699	-
Increase (Decrease) in Fiduciary Net Investment Position		(1,133,050)		24,186,635	23,053,585
FIDUCIARY NET INVESTMENT POSITION, JUNE 30, 2020		14,580,692		64,963,202	79,543,894
FIDUCIARY NET INVESTMENT POSITION, JUNE 30, 2021	\$	13,447,642	\$	89,149,837	\$ 102,597,479

DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST FUND

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 Fiduciary 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.

DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST FUND

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, 2021, 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 25 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, 2021. 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, 2021, were rated by Moody's or equivalent rating methodology.

DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST FUND

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, 2021.

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, 2021, consists of \$2.0 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.

DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST FUND

The following table presents fair value measurements as of June 30, 2021:

	Fair Value Measurements Using:			
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
INVESTMENTS				
BALANCED FUNDS				
Balanced Mutual Funds	\$ 89,140,243	\$ 89,140,243	\$ -	\$ -
Total Investments By Fair Value Level	<u>\$ 89,140,243</u>	<u>\$ 89,140,243</u>	<u>\$ -</u>	<u>\$ -</u>
INVESTMENTS MEASURED AT NET ASSET VALUE				
Commingled Equity Index Funds	4,946,164			
Commingled Intermediate Credit	8,485,115			
Total Investments at Net Asset Value	<u>13,431,279</u>			
Total Investments Measured at Fair Value	<u>\$ 102,571,522</u>			

Balanced 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, 2021, was \$47.48 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 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.

DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST FUND

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 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

DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST FUND

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%

DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST FUND

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	\$ 8,485,115	\$ 788,832	\$ 4,454,425	\$ 3,105,886	\$ 135,972	4.8	Schedule 2
Investments Not Required to be Categorized							
Commingled Equity Index Funds	4,946,164						
Balanced Mutual Funds	89,140,243						
Money Market Funds	26,312						
Total Investments Not Categorized	94,112,719						
Total Investments	\$ 102,597,834						

Schedule 2: Additional Credit Rating Disclosures

Moody's Equivalent Credit Rating	Commingled Intermediate Credit	
		Market Value
Aaa	\$	478,273
Aa1		158,739
Aa2		182,088
Aa3		642,940
A1		1,089,149
A2		1,307,387
A3		1,238,471
Baa1		1,042,618
Baa2		1,274,214
Baa3		1,005,697
Ba1 or Lower		65,539
Total	\$	8,485,115

DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST FUND

Schedule 3: Foreign Currency Exposure

Foreign Currency Denomination	Equity Securities	Percent of Total Investments
AUSTRALIAN DOLLAR	\$ 97,306	0.1%
BRAZILIAN REAL	33,892	0.0%
CANADIAN DOLLAR	145,221	0.1%
SWISS FRANC	117,850	0.1%
DANISH KRONE	31,826	0.0%
EURO CURRENCY	410,243	0.4%
POUND STERLING	190,707	0.2%
HONG KONG DOLLAR	186,704	0.2%
INDIAN RUPEE	69,961	0.1%
JAPANESE YEN	310,696	0.3%
SOUTH KOREAN WON	87,166	0.1%
SWEDISH KRONA	55,950	0.1%
NEW TAIWAN DOLLAR	93,900	0.1%
OTHER (MISC)	163,451	0.1%
Total Foreign Currency Exposure	<u>\$ 1,994,873</u>	<u>1.9%</u>



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, 2021, and the related notes to the financial statements, which collectively comprise the Developmental Disabilities Endowment Trust Fund's basic financial statements, and have issued our report thereon dated September 28, 2021.

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) as a basis for designing 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 that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

What inspires you, inspires us. Let's talk. | eidebailly.com

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

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 financial statements. 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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Boise, Idaho
September 28, 2021



4512.02

1452.02

5475.00

WASHINGTON STATE OPPORTUNITY SCHOLARSHIP FUND

2336.15



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 fiduciary net investment position as of June 30, 2021, and the related statement of changes in fiduciary 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

What inspires you, inspires us. Let's talk. | eidebailly.com

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

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 fiduciary net investment position of the Washington State Opportunity Scholarship Fund as of June 30, 2021, and the changes in fiduciary net investment position for the year then ended in conformity 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 a report dated September 28, 2021, 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.



Boise, Idaho

September 28, 2021

What inspires you, inspires us. Let's talk. | eidebailly.com

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

Management Discussion and Analysis

Management's Discussion and Analysis for the Washington State Opportunity Scholarship (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 Fiduciary Net Investment Position provides information on the types of investments, assets, and liabilities of the WSOS Fund, as of June 30, 2021. The Statement of Changes in Fiduciary Net Investment Position provides information on investment performance, and other increases and decreases in the fiduciary net investment position, of the WSOS Fund for the year ended June 30, 2021. The following table compares the fiduciary net investment position of each major investment classification at June 30, 2021, with those at June 30, 2020. 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 financial statements of the WSOS Fund.

General Market Commentary

The fiscal year began with the global economy amid a second wave of outbreaks related to the coronavirus (COVID-19) pandemic. The U.S. experienced steady declines in infection rates, while Europe experienced an increase. The significant progress towards a vaccine in the fall contributed to strong first fiscal quarter results in the global equity markets. Monetary policy goals of the U.S. Federal Reserve (Fed) are to foster economic conditions that achieve both stable prices and maximum sustainable employment. To achieve these goals, the Fed announced they were shifting from a set to an average inflation target. This allowed inflation to temporarily exceed the established set inflation targets.

Global equity markets continued to rally in the second quarter of the fiscal year. The U.S. election results, combined with the progress of COVID-19 vaccines, helped the more cyclical segments of the market recover. The pandemic took a turn for the worse during this period, with increasing infection rates in Europe and the U.S. in the second quarter topping previous highs. Governments implemented new stringent lockdown measures to slow the spread of COVID-19. The U.S. passed a \$900 billion stimulus package during this quarter, which included a \$600 cash disbursement to qualified individuals, more funding for the Paycheck Protection Program, and a 10-week extension of unemployment benefits. Emerging markets countries outperformed the developed markets in the second quarter, with the Morgan Stanley Capital International (MSCI) Emerging Markets (EM) Investable Market Index (IMI) returning 20.0 percent, and the MSCI Developed World IMI returned 15.1 percent. With global investors in a risk-on mood, the 10-year U.S. Treasury rate increased by 23 basis points during the second quarter of the fiscal year to end at 0.9 percent.

The third quarter of the fiscal year was marked by two key events. One was the Democratic victory in the state of Georgia, which shifted the leadership in the senate, enabling further massive U.S. fiscal stimulus to be enacted. The other major event was the success of the vaccine roll-out. Business surveys improved in March, with manufacturing expanding strongly in both Europe and the U.S. The U.S. service sector continued to perform well, but the most notable improvement was in the United Kingdom (UK) service sector, with businesses noting improvements in consumer confidence and signs of pent-up demand. The Fed again kept interest rates unchanged and made no major changes to the Fed Bond Buying Program. The goal of this program is to maintain liquidity in the



financial markets. Reductions in the amount of bonds purchased by the Fed in the secondary markets could potentially impact quantitative easing, leading to higher interest rates. Despite a lack of direct action from the Fed, U.S. interest rates rose considerably as investors became increasingly concerned about inflation. The 10-year U.S. Treasury rate increased by 83 basis points to end the quarter at 1.7 percent, which marked the highest month-end close since 1.9 percent at the end of December 2019.

The last quarter of the fiscal year ended with global equity markets continuing to rise as vaccination rates accelerated in most developed economies. Leading economic indicators released in June 2021 showed the economy continued to recover. The MSCI World Developed IMI returned a robust 40.6 percent over the fiscal year. The MSCI U.S. IMI returned 43.8 percent, while the MSCI EM IMI trailed close behind, returning 43.2 percent for the fiscal year. The Fed kept their policy rate at 0.25 percent and indicated it would maintain the current pace of bond purchases under the Fed Bond Program until there is substantial progress on the employment and inflation statistics. The 10-year U.S. Treasury rate decreased by 27 basis points during the last quarter to end the fiscal year at 1.5 percent, which is 81 basis points higher than last fiscal year. Credit spreads for both high yield and investment grade bonds declined in tandem with the risk-on mood of global equities. High yield spreads narrowed 42 basis points to end at 268, down 358 basis points over the fiscal year. Investment grade spreads tightened 11 basis points, ending at 80 basis points, narrower by 70 basis points for the fiscal year.

As shown in the following table, the fiduciary net investment position of the WSOS Fund increased by \$1.5 million during the fiscal year ended June 30, 2021. Net withdrawals from the WSOS Fund during the year decreased fiduciary net investment position by \$9.8 million. Net investment income increased fiduciary net investment position by \$11.4 million and was reinvested in the various asset classes of the WSOS Fund.

Net investment income increased by \$6.4 million during the current fiscal year as compared to the prior fiscal year, almost entirely from increases in net realized and unrealized gains within the equity portfolio. Equity returns were significantly higher compared to the previous fiscal year, which was the main contributor to the increase in these market related gains. The fixed income returns ended the year on a positive note. However, these returns declined significantly from the previous fiscal year, which tempered the increases noted in the equity portfolio. The current fiscal year return for the WSOS Fund was 10.92 percent, compared to the prior fiscal year return of 4.70 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 \$9.8 million from private scholarship funds during the current fiscal year, which was an increase in net withdrawals of \$8.0 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 fiduciary net investment position. These balances fluctuate from year to year based on invested balances, average coupon rates, and dividend yields.

WASHINGTON STATE OPPORTUNITY SCHOLARSHIP FUND

	Summarized Change in Fiduciary Net Investment Position and Returns by Asset Class								Year Over Year Change	
	Fiscal Year End June 30, 2021				Fiscal Year End June 30, 2020					
	Cash and Cash Equivalents(*)	Debt Securities	Equity Securities (*)	Total	Cash and Cash Equivalents(*)	Debt Securities	Equity Securities (*)	Total	Increase (Decrease)	Percent Change
Beginning Fiduciary 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%
Investment Income:										
Interest, Dividends, and Other Investment Income	41,000	-	2,779	43,779	260,963	-	5,756	266,719	(222,940)	-83.6%
Realized and Unrealized Gains	-	1,388,522	9,999,587	11,388,109	-	4,580,295	178,801	4,759,096	6,629,013	139.3%
Less: Investment Expenses	(38,022)	(11,398)	(13,231)	(62,651)	(38,918)	(12,321)	(13,550)	(64,789)	(2,138)	-3.3%
Net Investment Income	2,978	1,377,124	9,989,135	11,369,237	222,045	4,567,974	171,007	4,961,026	6,408,211	129.2%
Net Withdrawal by WSOS	(9,829,980)	-	-	(9,829,980)	(1,868,004)	-	-	(1,868,004)	(7,961,976)	426.2%
Transfers to Other Asset Classes	8,802,626	(1,508,129)	(7,294,497)	-	2,543,456	4,151,321	(6,694,777)	-	-	NA
Ending Fiduciary Net Investment Position	\$ 16,595,076	\$ 63,455,140	\$ 29,203,313	\$ 109,253,529	\$ 17,619,452	\$ 63,586,145	\$ 26,508,675	\$ 107,714,272	\$ 1,539,257	1.4%
Increase (Decrease) in Fiduciary Net Investment Position	\$ (1,024,376)	\$ (131,005)	\$ 2,694,638	\$ 1,539,257						
Percent Change in Fiduciary Net Investment Position	-5.8%	-0.2%	10.2%	1.4%						
One Year Time Weighted Return - June 30, 2021	0.04%	2.21%	41.01%	10.92%						
One Year Time Weighted Return - June 30, 2020	1.29%	7.69%	1.73%	4.70%						

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

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

- Cash and cash equivalents** fiduciary net investment position decreased during the current fiscal year by \$1.0 million. Withdrawals of \$9.8 million were requested by the administrator from investments in the private scholarship fund. Approximately \$8.8 million was subsequently transferred from other asset classes to fund the withdrawals and maintain strategic asset allocation targets throughout the year. Cash returns for the one-year period ended June 30, 2021, decreased over the prior fiscal year to 0.04 percent, resulting in a decrease in interest income over the prior year. Short-term rates moved considerably lower during the previous fiscal year by a net of 225 basis points because of Fed actions. The Fed rates remained unchanged during the current fiscal year, but the continued low-rate environment had a negative impact on cash returns. The Fiduciary Net Investment Position of Cash and Cash Equivalents include accrued income and accrued expenses.
- Debt securities** fiduciary net investment position decreased by \$0.1 million over the prior year. Realized and unrealized gains increased the fiduciary net investment position by \$1.4 million as a result of positive returns in the fixed income portfolio. The market gains were offset by the transfer of \$1.5 million in debt security sale proceeds to meet the withdrawal requirement of the administrator. 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.

Performance of the Bond Fund for the fiscal year ended June 30, 2021, was 2.21 percent, which slightly underperformed its benchmark, the Bloomberg Barclays U.S. Intermediate Credit Index, of 2.25 percent. During the current fiscal year, interest rates rose substantially causing bond prices to decrease, which negatively impacted overall bond market returns. Credit spreads narrowed during the current fiscal year, which partially offset the reduced



returns caused by the increasing rate environment. The combination of rising interest rates and the narrowing credit spreads caused the bond market returns to be significantly lower than the previous year, but still resulted in an overall positive return.

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

- **Equity securities** fiduciary net investment position increased by \$2.7 million. Realized and unrealized gains increased the fiduciary net investment position by \$10.0 million, as a result of strong returns in the equity portfolio. The market gains were offset by the transfer \$7.3 million in equity security sale proceeds to meet the withdrawal requests of the administrator. The WSOS Fund's global equity portfolio is passively managed and structured to closely track the performance of its global benchmark. The global equity benchmark returned 41.29 percent as measured by MSCI Indexes, which are a broad barometer of overall market returns. During the current fiscal year, the equity portfolio returned 41.01 percent, nearly matching the performance of the global equity benchmark.

The global equity markets had an incredible year, returning more than 40 percent one year after the onset of the COVID-19 pandemic. At the nadir of the pandemic, global equity markets declined in excess of 30 percent and the global economy entered a deep recession. Unemployment skyrocketed and gross domestic product (GDP) sharply contracted as large sections of the global economy were completely shut down. Unprecedented levels of stimulus and governmental support helped to minimize the impact of the recession on the U.S. economy. Markets were able to recover nearly all the ground lost due to the pandemic by September 2020. By the time news emerged that multiple vaccines had high efficacy against COVID-19 in late 2020, investors began looking through the depressed economic environment and toward an eventual return to normalcy in the quarters ahead. As countries rolled out inoculation programs in early 2021 and economies began to fully reopen, markets closed out the fiscal year at record highs.

The fair value of the WSOS Fund fiduciary 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

Washington State Opportunity Scholarship Fund Statement of Fiduciary Net Investment Position - June 30, 2021

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	\$ 15,996,548	\$ 586,450	\$ 11,789	\$ 16,594,787	15.2%
DEBT SECURITIES					
Commingled Intermediate Credit	62,156,935	1,298,205	-	63,455,140	58.1%
EQUITY SECURITIES					
Commingled Equity Index Funds	23,905,751	5,299,357	-	29,205,108	26.7%
Total Investments	102,059,234	7,184,012	11,789	109,255,035	100.0%
Investment Earnings Receivable	2,920	107	2	3,029	
Total Assets	102,062,154	7,184,119	11,791	109,258,064	
LIABILITIES					
Accrued Expenses Payable	4,111	422	2	4,535	
FIDUCIARY NET INVESTMENT POSITION	\$ 102,058,043	\$ 7,183,697	\$ 11,789	\$ 109,253,529	

WASHINGTON STATE OPPORTUNITY SCHOLARSHIP FUND

Washington State Opportunity Scholarship Fund Statement of Changes in Fiduciary Net Investment Position - Year Ended June 30, 2021

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	\$ 41,999	\$ 1,757	\$ 23	\$ 43,779
Net Realized and Unrealized Gains	9,743,646	1,644,463	-	11,388,109
Less:				
Investment Expenses	(41,258)	(2,577)	(19)	(43,854)
WSIB Operating Expenses	(17,735)	(1,062)	-	(18,797)
Net Investment Income	9,726,652	1,642,581	4	11,369,237
Cash Transfers	19,569	1,267	(20,836)	-
Net Amount Withdrawn	(9,849,980)	-	20,000	(9,829,980)
Increase (Decrease) in Fiduciary Net Investment Position	(103,759)	1,643,848	(832)	1,539,257
FIDUCIARY NET INVESTMENT POSITION, JUNE 30, 2020	102,161,802	5,539,849	12,621	107,714,272
FIDUCIARY NET INVESTMENT POSITION, JUNE 30, 2021	\$ 102,058,043	\$ 7,183,697	\$ 11,789	\$ 109,253,529



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 Fiduciary 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'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 WSOS Fund will not be able to recover the value of its deposits, investments, or collateral securities. As of June 30, 2021, 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 25 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, 2021. 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, 2021, 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, 2021.

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, 2021, consisted of \$12.0 million invested in an international commingled equity index funds (MSCI All Country World (ACWI) 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.

WASHINGTON STATE OPPORTUNITY SCHOLARSHIP FUND



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 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, 2021:

	Fair Value
INVESTMENTS	
INVESTMENTS MEASURED AT NET ASSET VALUE	
Commingled Equity Index Funds	\$ 29,205,108
Commingled Intermediate Credit	63,455,140
Total Investments at Net Asset Value	<u>92,660,248</u>
Total Investments Measured at Fair Value	<u>\$ 92,660,248</u>

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.

WASHINGTON STATE OPPORTUNITY SCHOLARSHIP FUND

Private Funds

The public equity component will be invested to track the return of the 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 25 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%

WASHINGTON STATE OPPORTUNITY SCHOLARSHIP FUND



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	\$ 63,455,140	\$ 5,899,207	\$ 33,312,003	\$ 23,227,082	\$ 1,016,848	4.8	Schedule 2
Investments Not Required to be Categorized							
Commingled Equity Index Funds	29,205,108						
Short-Term Investment Funds	16,594,787						
Total Investments Not Categorized	45,799,895						
Total Investments	\$ 109,255,035						

Schedule 2: Additional Credit Rating Disclosures

Moody's Equivalent Credit Rating	Commingled Intermediate Credit	
		Market Value
Aaa	\$	3,576,718
Aa1		1,187,119
Aa2		1,361,731
Aa3		4,808,169
A1		8,145,101
A2		9,777,172
A3		9,261,793
Baa1		7,797,117
Baa2		9,529,089
Baa3		7,521,007
Ba1 and Lower		490,124
Total	\$	63,455,140

WASHINGTON STATE OPPORTUNITY SCHOLARSHIP FUND

Schedule 3: Foreign Currency Exposure

Foreign Currency Denomination	Equity Securities	Percent of Total Investments
AUSTRALIAN DOLLAR	\$ 572,746	0.5%
BRAZILIAN REAL	201,653	0.2%
CANADIAN DOLLAR	852,637	0.8%
SWISS FRANC	695,568	0.6%
YUAN RENMINBI	158,127	0.1%
DANISH KRONE	188,073	0.2%
EURO CURRENCY	2,401,947	2.2%
POUND STERLING	1,143,023	1.0%
HONG KONG DOLLAR	1,121,389	1.0%
INDIAN RUPEE	412,862	0.4%
JAPANESE YEN	1,829,699	1.7%
SOUTH KOREAN WON	514,685	0.5%
SWEDISH KRONA	331,485	0.3%
NEW TAIWAN DOLLAR	554,043	0.5%
OTHER MISCELLANEOUS CURRENCIES	976,812	0.9%
Total Foreign Currency Exposure	\$ 11,954,749	10.9%



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, 2021, 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 28, 2021.

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) as a basis for designing 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.

What inspires you, inspires us. Let's talk. | eidebailly.com

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

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 financial statements. 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.



Boise, Idaho
September 28, 2021

DAILY VALUED FUNDS





Independent Auditor's Report

To the Members of the Washington State Investment Board

Olympia, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the Daily Valued Funds (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 fiduciary net investment position as of June 30, 2021, and the related statement of changes in fiduciary 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.

What inspires you, inspires us. Let's talk. | eidebailly.com

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

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 fiduciary net investment position of the Daily Valued Funds as of June 30, 2021, and the changes in fiduciary net investment position for the year then ended in conformity 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 a report dated September 28, 2021, 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.



Boise, Idaho
September 28, 2021

What inspires you, inspires us. Let's talk. | eidebailly.com

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

Management Discussion and Analysis

Management's Discussion and Analysis for the 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 Fiduciary Net Investment Position provides information on the types of investments, assets, and liabilities of the DVF as of June 30, 2021. The Statement of Changes in Fiduciary Net Investment Position provides information on investment performance and other increases and decreases in the fiduciary net investment position of the DVF for the year ended June 30, 2021. The following table compares the fiduciary net investment position of each major investment classification at June 30, 2021, with those at June 30, 2020. 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.

General Market Commentary

The fiscal year began with the global economy amid a second wave of outbreaks related to the coronavirus (COVID-19) pandemic. The U.S. experienced steady declines in infection rates, while Europe experienced an increase. The significant progress towards a vaccine in the fall contributed to strong first fiscal quarter results in the global equity markets. Monetary policy goals of the U.S. Federal Reserve (Fed) are to foster economic conditions that achieve both stable prices and maximum sustainable employment. To achieve these goals, the Fed announced they were shifting from a set to an average inflation target. This allowed inflation to temporarily exceed the established set inflation targets.

Global equity markets continued to rally in the second quarter of the fiscal year. The U.S. election results, combined with the progress of COVID-19 vaccines, helped the more cyclical segments of the market recover. The pandemic took a turn for the worse during this period, with increasing infection rates in Europe and the U.S. in the second quarter topping previous highs. Governments implemented new stringent lockdown measures to slow the spread of COVID-19. The U.S. passed a \$900 billion stimulus package during this quarter, which included a \$600 cash disbursement to qualified individuals, more funding for the Paycheck Protection Program, and a 10-week extension of unemployment benefits. Emerging markets countries outperformed the developed markets in the second quarter, with the Morgan Stanley Capital International (MSCI) Emerging Markets (EM) Investable Market Index (IMI) returning 20.0 percent, and the MSCI Developed World IMI returned 15.1 percent. With global investors in a risk-on mood, the 10-year U.S. Treasury rate increased by 23 basis points during the second quarter of the fiscal year to end at 0.9 percent.

The third quarter of the fiscal year was marked by two key events. One was the Democratic victory in the state of Georgia, which shifted the leadership in the senate, enabling further massive U.S. fiscal stimulus to be enacted. The other major event was the success of the vaccine roll-out. Business surveys improved in March, with manufacturing expanding strongly in both Europe and the U.S. The U.S. service sector continued to perform well, but the most notable improvement was in the United Kingdom (UK) service sector, with businesses noting improvements in consumer confidence and signs of pent-up demand. The Fed again kept interest rates unchanged and made no major changes to the Fed Bond Buying Program. The goal of this program is to maintain liquidity in the

DAILY VALUED FUNDS

financial markets. Reductions in the amount of bonds purchased by the Fed in the secondary markets could potentially impact quantitative easing, leading to higher interest rates. Despite a lack of direct action from the Fed, U.S. interest rates rose considerably as investors became increasingly concerned about inflation. The 10-year U.S. Treasury rate increased by 83 basis points to end the quarter at 1.7 percent, which marked the highest month-end close since 1.9 percent at the end of December 2019.

The last quarter of the fiscal year ended with global equity markets continuing to rise as vaccination rates accelerated in most developed economies. Leading economic indicators released in June 2021 showed the economy continued to recover. The MSCI World Developed IMI returned a robust 40.6 percent over the fiscal year. The MSCI U.S. IMI returned 43.8 percent, while the MSCI EM IMI trailed close behind, returning 43.2 percent for the fiscal year. The Fed kept their policy rate at 0.25 percent and indicated it would maintain the current pace of bond purchases under the Fed Bond Program until there is substantial progress on the employment and inflation statistics. The 10-year U.S. Treasury rate decreased by 27 basis points during the last quarter to end the fiscal year at 1.5 percent, which is 81 basis points higher than last fiscal year. Credit spreads for both high yield and investment grade bonds declined in tandem with the risk-on mood of global equities. High yield spreads narrowed 42 basis points to end at 268, down 358 basis points over the fiscal year. Investment grade spreads tightened 11 basis points, ending at 80 basis points, narrower by 70 basis points for the fiscal year.

As shown in the following table, the fiduciary net investment position of the DVF increased by \$276.6 million during the fiscal year ended June 30, 2021. Net contributions to the DVF by participants during the year increased fiduciary net investment position by \$178.9 million. Net investment income of \$97.8 million increased the fiduciary net investment position of the DVF over the previous year.

	Summarized Change in Fiduciary Net Investment Position and Returns by Asset Class								Year Over Year Change	
	Fiscal Year End June 30, 2021				Fiscal Year End June 30, 2020				Increase (Decrease)	Percent Change
	Bond Fund (*)	Savings Pool (*)	TIPS Fund (*)	Total	Bond Fund (*)	Savings Pool (*)	TIPS Fund (*)	Total		
Beginning Fiduciary 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%
Investment Income:										
Interest, Dividends, and Other Investment Income	64,860,067	21,703,111	1,897,697	88,460,875	63,622,447	22,814,770	2,165,173	88,602,390	(141,515)	-0.2%
Realized and Unrealized Gains (Losses)	(13,859,521)	1,927	23,756,862	9,899,268	87,828,532	2,408	27,175,225	115,006,165	(105,106,897)	-91.4%
Less: Investment Expenses	(307,446)	(229,505)	(53,688)	(590,639)	(258,692)	(222,109)	(120,551)	(601,352)	(10,713)	-1.8%
Net Investment Income	50,693,100	21,475,533	25,600,871	97,769,504	151,192,287	22,595,069	29,219,847	203,007,203	(105,237,699)	-51.8%
Net Amount Contributed (Withdrawn)	149,838,444	(47,620,646)	76,639,395	178,857,193	313,912,245	60,276,456	(14,216,592)	359,972,109	(181,114,916)	-50.3%
Ending Fiduciary Net Investment Position (**)	\$ 2,514,035,898	\$ 944,569,118	\$ 484,478,254	\$ 3,943,083,270	\$ 2,313,504,354	\$ 970,714,231	\$ 382,237,988	\$ 3,666,456,573	\$ 276,626,697	7.5%
Increase (Decrease) in Fiduciary Net Investment Position	\$ 200,531,544	\$ (26,145,113)	\$ 102,240,266	\$ 276,626,697						
Percent Change in Fiduciary Net Investment Position	8.7%	-2.7%	26.7%	7.5%						
One Year Time Weighted Return - June 30, 2021	2.2%	2.2%	6.2%	NA						
One Year Time Weighted Return - June 30, 2020	7.7%	2.5%	8.6%	NA						

(*) Includes cash balances used for trading purposes, Savings Pool holds cash as part of the investment strategy

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

Net investment income decreased by 51.8 percent from the previous fiscal year, primarily from increases in net realized and unrealized losses within the Daily Valued Bond Fund (Bond Fund). The Bond Fund's return was 550 basis points lower compared to the previous fiscal year, resulting in a decrease in realized and unrealized gains of \$101.7 million. Additional capital of \$149.8 million, or roughly 6 percent of the prior year's net invested balances, was invested in the Bond Fund during the current fiscal year. This increase in invested balances, coupled with rising interest rates, increased interest income in the Bond Fund over the previous fiscal year. Treasury Inflation Protected Security (TIPS) Fund's decreased net investment income by \$3.6 million over the previous fiscal year. This increase was the result of additional capital inflows of approximately 20 percent of the prior year's invested balances, which offset the impact of a 240 basis point decline in returns from the prior fiscal year. The decrease in interest earnings in the Savings Pool is primarily due to lower invested balances from withdrawals by participants of approximately 5 percent of the prior years invested balances.

Performance of the Bond Fund for the fiscal year ended June 30, 2021, was 2.2 percent, which slightly underperformed its benchmark, the Bloomberg Barclays U.S. Intermediate Credit Index, which was 2.3 percent. During the current fiscal year, interest rates rose substantially, causing bond prices to decrease, which negatively impacted overall bond market returns. Credit spreads narrowed during the current fiscal year, which partially offset the reduced returns caused by the increasing rate environment. The combination of rising interest rates and the narrowing credit spreads caused the bond market returns to be significantly lower than the previous year, but still resulted in an overall positive return. Performance for the TIPS Fund was 6.2 percent for the year, which underperformed its benchmark return, the Bloomberg Barclays U.S. Treasury Inflation Protected Securities Index, of 6.5 percent. The underperformance in comparison to the benchmark can be attributed to the cash balances in the TIPS Fund required to meet the liquidity needs of the portfolio. Cash balances in the TIPS Fund at the end of the fiscal year were 1.2 percent of the total fund balances. Cash returns were significantly lower than those of TIPS securities in the portfolio, which negatively impacts the fund's performance in relation to its benchmark return. The TIPS Fund total return decreased by 240 basis points from the previous fiscal year due to the rising rate environment discussed previously.

Net contributions and withdrawals from the DVF decreased \$181.1 million during the current fiscal year as compared to the prior fiscal year. Net contributions to the Bond Fund decreased \$164.1 million over the previous year, which represents most of the year over year change. In the previous fiscal year, the Guaranteed Education Tuition (GET) Fund, a participant in the Bond Fund, contributed \$299.0 million as a result of a rebalance between investments. The GET Fund's asset allocation policies were changed, which increased the fixed income exposure 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.

DAILY VALUED FUNDS

Investment related receivables and payables are reflected in each asset class's fiduciary 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 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 and interest rate changes each year.

DAILY VALUED FUNDS

Daily Valued Funds (DVF) Statement of Fiduciary Net Investment Position - June 30, 2021

See notes to financial statements

	Bond Fund	Savings Pool	TIPS Fund	Total	Percent of Total
ASSETS					
Investments					
CASH AND CASH EQUIVALENTS	\$ 76,586,726	\$ 75,520,051	\$ 5,872,925	\$ 157,979,702	4.0%
DEBT SECURITIES					
Corporate Bonds	2,084,393,541	-	-	2,084,393,541	
U.S. Government and Agency Securities	-	-	477,826,105	477,826,105	
Guaranteed Insurance Contracts	-	869,054,462	-	869,054,462	
Foreign Government and Agencies	340,874,390	-	-	340,874,390	
Total Debt Securities	2,425,267,931	869,054,462	477,826,105	3,772,148,498	96.0%
Total Investments	2,501,854,657	944,574,513	483,699,030	3,930,128,200	100.0%
Investment Earnings Receivable	17,144,012	14,348	779,782	17,938,142	
Total Assets	2,518,998,669	944,588,861	484,478,812	3,948,066,342	
LIABILITIES					
Accounts Payable	31,421	19,743	558	51,722	
Payable for Investments Purchased	4,931,350	-	-	4,931,350	
Total Liabilities	4,962,771	19,743	558	4,983,072	
FIDUCIARY NET INVESTMENT POSITION	\$ 2,514,035,898	\$ 944,569,118	\$ 484,478,254	\$ 3,943,083,270	

DAILY VALUED FUNDS

Daily Valued Funds (DVF) Statement of Changes in Fiduciary Net Investment Position - Year Ended June 30, 2021

See notes to financial statements

	Bond Fund	Savings Pool	TIPS Fund	Total
Net Investment Income				
Investment Income				
Interest, Dividends and Other Investment Income	\$ 64,860,067	\$ 21,703,111	\$ 1,897,697	\$ 88,460,875
Net Realized and Unrealized Gains (Losses)	(13,859,521)	1,927	23,756,862	9,899,268
Less:				
Investment Expenses	(307,446)	(229,505)	(53,688)	(590,639)
Net Investment Income	50,693,100	21,475,533	25,600,871	97,769,504
Net Amount Contributed (Withdrawn)	149,838,444	(47,620,646)	76,639,395	178,857,193
Increase (Decrease) in Fiduciary Net Investment Position	200,531,544	(26,145,113)	102,240,266	276,626,697
FIDUCIARY NET INVESTMENT POSITION, JUNE 30, 2020	2,313,504,354	970,714,231	382,237,988	3,666,456,573
FIDUCIARY NET INVESTMENT POSITION, JUNE 30, 2021	\$ 2,514,035,898	\$ 944,569,118	\$ 484,478,254	\$ 3,943,083,270

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	11.5%	99.8%	NA
Judicial Retirement Account	Trace	0.2%	NA
Washington State Retirement System Defined Contribution Participants	17.8%	NA	NA
Developmental Disabilities Endowment Trust Fund	0.3%	NA	NA
Guaranteed Education Tuition Program	37.6%	NA	NA
Washington State Opportunity Scholarship Fund	2.5%	NA	NA
Alliance Bernstein Retirement Strategy Funds	30.3%	NA	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 Fiduciary 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 Fiduciary 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 Fiduciary Net Investment Position does not include detailed holdings of securities lending collateral by investment classification. During the current fiscal year, 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, 2021, 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 25 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 25 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, 2021. 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, 2021, 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, 2021.

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, 2021, 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.

When debt securities are loaned during the fiscal year, they are 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 have 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 are required to be collateralized at 105 percent of the fair value, including accrued interest of the loaned securities. No securities were lent during the current fiscal year and, accordingly, no collateral was held at June 30, 2021.

Securities lending transactions can be terminated on demand by either the DVF or the borrower. Non-cash collateral cannot 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 are lent with the agreement they will 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 2021, no securities were lent and, accordingly, 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 2021, 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.

DAILY VALUED FUNDS

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 Bloomberg Valuation Service. 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, 2021:

	Fair Value	Fair Value Measurements Using:		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
INVESTMENTS				
DEBT SECURITIES				
Corporate Bonds	\$ 2,084,393,541	\$ -	\$ 2,084,393,541	\$ -
U.S. and Foreign Government and Agency Securities	818,700,495	-	818,700,495	-
Total Debt Securities	<u>\$ 2,903,094,036</u>	<u>\$ -</u>	<u>\$ 2,903,094,036</u>	<u>\$ -</u>
Total Investments Measured at Fair Value	<u>\$ 2,903,094,036</u>			

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 25 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 25 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				Effective Duration *	Credit Rating
		Less than 1 year	1-5 years	6-10 years	More than 10 years		
Corporate Bonds	\$ 2,084,393,541	\$ 130,787,319	\$ 1,135,723,712	\$ 777,595,860	\$ 40,286,650	4.8	Schedule 2
U.S. Government and Agency Securities	477,826,105	-	248,387,118	160,439,071	68,999,916	7.8	Aaa
Guaranteed Insurance Contracts	869,054,462	222,026,629	647,027,833	-	-	N/A	Not Rated
Foreign Government and Agencies	340,874,390	14,165,970	184,068,050	142,640,370	-	5.1	Schedule 2
	<u>3,772,148,498</u>	<u>\$ 366,979,918</u>	<u>\$ 2,215,206,713</u>	<u>\$ 1,080,675,301</u>	<u>\$ 109,286,566</u>		
Investments Not Required to be Categorized							
Cash and Cash Equivalents	157,979,702						
Total Investments Not Categorized	<u>157,979,702</u>						
Total Investments	<u>\$ 3,930,128,200</u>						

* Excludes cash and cash equivalents

Schedule 2: Additional Credit Rating Disclosures

Moody's Equivalent Credit Rating	Foreign	
	Corporate Bonds	Government and Agency Securities
Aaa	\$ 94,732,829	\$ 41,970,020
Aa1	21,186,400	24,185,500
Aa2	25,646,450	26,399,200
Aa3	141,427,440	42,341,700
A1	213,636,050	97,671,300
A2	347,675,920	26,009,500
A3	353,987,540	-
Baa1	298,007,370	-
Baa2	336,674,420	27,529,250
Baa3	232,686,470	54,767,920
Ba1 or Lower	18,732,652	-
Total	<u>\$ 2,084,393,541</u>	<u>\$ 340,874,390</u>



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, 2021, 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 23, 2021.

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) as a basis for designing 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.

What inspires you, inspires us. Let's talk. | eidebailly.com

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

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 financial statements. 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.

The logo for Eide Bailly LLP is written in a cursive, handwritten style. The letters are dark blue or black, and the overall appearance is that of a signature or a stylized brand mark.

Boise, Idaho
September 28, 2021



WASHINGTON STATE INVESTMENT BOARD

WWW.SIB.WA.GOV