



WASHINGTON STATE INVESTMENT BOARD
41ST ANNUAL REPORT

2022

A blurred background of a wooden desk with a laptop and a pen. The desk is made of light-colored wood. A silver and gold pen lies on the desk. A laptop is open in the background, and a stack of papers is visible on the right side. The lighting is warm and soft, suggesting an indoor setting with natural light.

INTRODUCTION

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LETTER OF TRANSMITTAL



We will remember Fiscal Year (FY) 2022 as a complex turning point – a watershed moment for markets and for history. We are hard-pressed to recall a time when so much change has occurred on so many levels, so quickly, and with such broad impact.

Investment markets shifted from sustained momentum to multi-faceted uncertainties. Investor sentiments shifted from bullish to bearish with the onset of the 2022 calendar year. Persistently low inflation was turned on its head by an annual inflation rate of 8 to 9 percent. Monetary policy

morphed from easy-going to hard-nosed; record-low interest rates doubled in a matter of months. Amid all of this, our Commingled Trust Fund (CTF) posted performance of 5.4 percent for the fiscal year ending June 30, 2022, a gratifying achievement in a period when many peer funds experienced negative or flat outcomes.

We also saw a global COVID-19 pandemic stubbornly evolve into a virus of variants, still contagious but with varying degrees of illness. Lockdowns and quarantines led to remote and hybrid work practices, along with a wide range of social and health preferences. In geopolitics, we witnessed the U.S. withdrawal from Afghanistan, and we were shocked when Putin's Russian military brutally invaded Ukraine.

With a trail of wildfires, floods, record heat, and other impacts, climate change became undeniably material to people's lives. As a result of the murder of George Floyd (May 2020) and other traumatic incidents, our culture's longstanding needs surrounding diversity, equity, and inclusion escalated into an urgent priority for anyone with a stake in our socio-economic future. These systemic issues are no longer abstract or academic; they are imprinted indelibly into our lives regardless of personal values, beliefs, or occupations.

As the investor of public retirement plans and other vital public trust funds, we understand that the winds of change will continually shift direction and magnitude. We must be responsive but not necessarily reactive. To achieve this discipline, the Washington State Investment Board (WSIB) remains committed to several core concepts that simply will not change:

Fiduciary duty to beneficiaries and stakeholders – As stewards of public trust funds, we recognize the need to navigate change without losing sight of our core mission: maximizing returns at a prudent level of risk. Our first duty is a resilient commitment to serve as a responsible fiduciary and an outcome-focused investor.

Long-term strategic focus – We believe that over time, the merits of our strategic focus will play out in the form of investments that withstand change and lean into opportunity. By avoiding the temptation of short-term reactive thinking, our investment process will rely on fundamentals of relevant data, fresh thinking, global diversification, and a drive for enduring value creation.

Balance of continuity and adaptability – Our organization is best built for the marathon, less so for the sprint. This has allowed us to rank among the top performing large institutional investment plans. But we pair our continuity with a strong commitment to adaptability – a drive to enhance any aspect of our organization where we see emerging potential.

In January 2022, I became the Chief Executive Officer (CEO) at the WSIB, inheriting a remarkable legacy of leadership and performance. Today, as a humble and caring steward of the WSIB's future, I see a hopeful and promising future ahead. I can assure you that the WSIB stands ready and well-equipped to withstand the winds of change and the varied challenges in today's world. Most importantly, we look forward to continuing to earn your trust and confidence.

Sincerely,

Allyson Tucker

Chief Executive Officer

MESSAGE FROM THE CHAIR

Our Board and staff at the WSIB are pleased to provide this Annual Report for the fiscal year ending June 30, 2022. As chair of the WSIB, it's my privilege to provide this report as a reflection of our investment approach and results.

The WSIB strives to pursue optimal investment results while diligently evaluating all forms of risk. As you will note from CEO Allyson Tucker's accompanying letter, we have no shortage of risk and return factors to consider. Fortunately, our Board members are focused, engaged, and committed to our core mission and the duty of thoughtful governance at the WSIB.

The past fiscal year has been frequent with change, transformation, and some uncertainty along the way. A complex mix of financial, social, environmental, and geopolitical factors have generated more questions than answers for investors and citizens alike. The WSIB itself also has undergone an important leadership transition and a series of staffing changes. In June 2021, our Board appointed Allyson Tucker as the next top executive at the WSIB, promoting her from her previous role as Chief Investment Officer. As of January 2022, she capably took the role of CEO from Theresa Whitmarsh who retired after a landmark career that included 12 years as WSIB's leader. In February 2022, Allyson named Chris Hanak as our new Chief Investment Officer. Our Board is excited about these decisions because they allow the WSIB to build on its recognized cultural and professional strengths while embracing and adapting to changes essential for the future.

We are proud of the WSIB's investment capabilities and the resilience of strategy that surrounds the management of our public trust funds. Our investment performance for the fiscal year, 5.4 percent, and since inception, 9.1 percent, compares very favorably against our peers. Our long-term focus is helping to ease retirement plan contribution costs and is providing tangible financial support to state agencies, taxpayers, and state lawmakers.

As of the end of Fiscal Year 2022, the WSIB is managing \$182.3 billion in total assets, including more than \$149 billion in the CTF for retirement plans. Our state's retirement system stands out as one of the top five nationwide when comparing funding levels.

Looking forward, our Board will continue to focus on the relationship between fiduciary duty and the need for responsible asset stewardship in a way that addresses environmental, social and governance (ESG) factors when material to investing. We are encouraged by our staff's dedication to evaluating climate issues, diversity needs, and other systemic factors, all with a mix of both discipline and healthy curiosity. Determining where these issues connect materially with investment strategy is a complex and often subjective task, and our Board members are focused on both learning and defining the ongoing need to shape effective strategy for the long run.

With all of this in mind, our Board will continue to work constructively with staff and all our investment clients to ensure an enduring, strategic, and successful investment program that serves the vital interests of those we serve.

Sincerely,
Tracy Guerin
Chair



BOARD MEMBERS AND COMMITTEES

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



Treasurer
Mike Pellicciotti



Tracy Guerin
Chair



Greg Markley
Vice Chair



Joel Sacks



Judy Kuschel



Yona Makowski



Sara Ketelsen



Liz Lewis



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

ALLYSON TUCKER - 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.

CHRIS HANAK - 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 role also oversees the team responsible for asset allocation and risk budgeting strategies.

CURT GAVIGAN - CHIEF OPERATING OFFICER

The Chief Operating Officer oversees the Operations Division, which is comprised of WSIB's legal, risk and compliance team, budget planning, information systems, security management, travel and office administrative services.

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.

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.

BOBBY HUMES - HUMAN RESOURCES DIRECTOR

The Human Resources Director is responsible for facilitating the hiring and retention of skilled employees and for positioning the agency as a successful destination workplace that contributes to the organization's mission. Leadership on professional coaching and development, workplace and career planning, and management of all human resource functions.

CTF PARTNERS & FUND MANAGERS

PRIVATE EQUITY

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

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

CTF PARTNERS & FUND MANAGERS

TANGIBLE ASSETS

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

PUBLIC EQUITY

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 Capital	

INNOVATION

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

OVERLAY MANAGER

State Street Global Advisors

ASSET STEWARDSHIP / ESG INTEGRATION / ADVOCACY

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. Through its asset stewardship 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, starting with enhanced requirements for women on boards
- The policy also was updated to reflect a focus on broader diversity on boards, including race and ethnicity. Further updates related to diversity, climate and shareholder rights are planned for the near-term.
- 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 Oversight & ESG 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 via the ESG Working Group, which is comprised of one member of every asset class team and other staff considered critical to the WSIB's ESG integration efforts.

HIGHLIGHTS

- The WSIB continued to focus on ESG risks and opportunities during internal Investment Committee meetings as part of the comprehensive review of prospective new investments
- Developed strategic roadmaps for climate and DEI that create a cohesive framework for ongoing evaluation and decision-making and establish three interrelated tiers of activity related to 1) our organization, 2) our investment portfolios, and 3) our external role in the investment industry

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 2022, the WSIB actively engaged in submitting letters to the Securities and Exchange Commission (SEC) and other credible entities supporting climate change initiatives, diversity, and improved proxy voting processes.

HIGHLIGHTS

- In October 2021, the WSIB submitted a letter to Congress in support of Council of Institutional Investors (CII)-backed legislation on dual class shares and diversity
- In November 2021, the WSIB co-led a collective institutional investor letter to the SEC requesting all public companies publicly release Equal Employment Opportunity (EEO-1) data
- In December 2021, the WSIB submitted a letter to the SEC asking to rescind prior proposed rules that would greatly restrict proxy advisors in providing independent research to institutional investor clients
- In June 2022, the WSIB submitted a letter to the SEC supporting key elements of its proposed Climate-Related Financial Disclosure Rule
- 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	\$19,652,140	\$17,865,610	\$1,786,530
Benefits	4,656,039	4,194,486	461,553
Professional Service Contracts	1,148,197	755,851	392,346
Goods and Services	5,665,223	4,374,220	1,291,003
Travel	1,014,052	127,087	886,965
Equipment	219,970	150,856	69,114
Treasury Note	117,963	117,693	270
SUBTOTAL APPROPRIATED	\$32,473,584	\$27,585,802	\$4,887,782*

NON-APPROPRIATED

	Budget	Expenditures	Budget Variance
Public Equity	\$73,218,000	\$82,951,313	\$(9,733,313)
Private Equity	461,000,000	398,672,536	62,327,464
Real Estate	51,333,000	17,286,593	34,046,407
Tangible Assets	108,508,000	80,814,170	27,693,830
Innovation Portfolio	19,550,000	13,820,674	5,729,326
Securities Lending	4,500,000	2,130,147	2,369,853
Cash Management	4,600,000	5,271,460	(671,460)
Cash Overlay	1,000,000	769,398	230,602
General Consultants	1,015,000	516,124	498,876
Staff Consultants and Contractual Services	4,264,000	2,586,854	1,677,146
Legal Fees	3,000,000	1,317,875	1,682,126
Custodian Bank Fees and Trade Settlement Services	3,020,000	2,980,000	40,000
Portfolio Verification and Shadow Accounting System	1,000,000	683,683	316,317
Memberships	252,000	200,899	51,101
Research Services, Analytical Tools, and Other	4,026,000	3,773,331	252,669
SUBTOTAL NON-APPROPRIATED	740,286,000	613,775,057	126,510,943
TOTAL	\$772,759,584	\$641,360,859	\$131,398,725

* The balance will be carried forward to Fiscal Year 2023 since the WSIB is granted a biennial appropriation

INVESTMENTS

CTF Investment Summary (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.

HIGHLIGHTS

- Strategic asset allocation studies were completed for two of the funds managed by the Board: Commingled Trust Fund and Volunteer Firefighters' and Reserve Officers' (VFFRO) Relief and Pension Fund

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. 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 actuarially assumed rate of return.

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

FIXED INCOME

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

The yield on the 10-year treasury began the fiscal year at 1.5 percent. It fluctuated through the summer and fall, going as low as 1.2 percent in August and as high as 1.7 percent in November, and ended the 2021 calendar year at 1.5 percent. The yield rose steadily in the first two quarters of 2022, rising as high as 3.5 percent in June before finishing the fiscal year at 3.0 percent.

HIGHLIGHTS

- The portfolio outperformed the Bloomberg U.S. Universal Index for the fiscal year
- Transactions totaled \$7.7 billion in purchases and \$2.3 billion in sales
- During the fiscal year, \$3.6 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. The portfolio is expected to be a diversifier to the rest of the CTF and to perform well in periods of higher 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 continued to slow the pace of investment with the WSIB only approving 3 new commitments totaling approximately \$1.0 billion
- The Board approved a larger target to tangible assets in October 2021 raising it from 7.0 percent to 8.0 percent, as of June 30, 2022, it was 6.1 percent
- The portfolio has performed in line with expectations

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. Steady income from lease payments, combined with the potential for appreciation, generate returns that are expected to fall between the performance of fixed income and equities over the long term.

In most cases, the WSIB and its partners are the only financial investors in a partnership. This provides the WSIB with strong governance provisions related to acquisition, disposition, and annual business planning processes. Most 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 strategy and style. 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 real estate portfolio produced strong returns in FY 2022. Being heavily weighted to industrial/warehouse properties was the largest contributor to the positive results. Geographically, the U.S. provided the best returns globally. The portfolio continues to produce steady income—a primary goal of the program. The importance of having a long-term investment horizon is evident in the attractive returns generated by the real estate portfolio over long periods and through multiple economic cycles. In general, drivers of successful long-term returns for the WSIB's property portfolio are investments in real estate operating companies (REOCs), diversification by market and property type, and an emphasis on high-quality micro-locations in major markets.

HIGHLIGHTS

- Four commitments totaling \$2.5 billion were made during Fiscal Year 2022

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 where 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, 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.

In the markets, global equity returns were down over the fiscal year. The first half of the fiscal year saw global equity continue its prior upward trends, which was followed by sharp reversals in the second half. Drivers of the turbulent market environment in the latter half of the year included geopolitical tensions, a shift to tighter monetary policy spurred by high inflation, and a continuation of the COVID global pandemic.

The overall public equity program held up better than its benchmark, posting a loss of 16.0 percent. The decline would have been steeper if the program had been 100 percent passively invested. The WSIB's active managers in international markets delivered some downside protection to the entire portfolio. The U.S. equity program performed slightly ahead of the index and for international markets, both the Non-U.S. developed and emerging markets programs exceeded their respective benchmarks. The WSIB's active global program underperformed its benchmark. While the performance of core and value managers largely exceeded the benchmark, that of growth managers faced more challenges.

HIGHLIGHTS

- The public equity portfolio outperformed its benchmark for all time periods except the 3-year time period
- U.S. and international equity (both emerging and developed) outperformed their benchmark for the fiscal year while growth underperformed

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.

During the first half of FY 2022, the private equity industry continued to see feverish fundraising and investment activity comparable to what occurred in last year's broader economic rebound from the pandemic. However, private equity portfolios worldwide were not spared from the effects of the dislocation in the global economy caused by Russia's invasion of Ukraine, which also translated in renewed supply chain disruptions and a spike in the cost of energy and commodities. Due to the typical lag in private equity valuations, adjustments will not be entirely quantifiable until later this year. Not surprisingly, the industry sectors most affected to date by this correction are those that performed best during the pandemic -- most notably technology, but to some extent, all growth equity in general. In an environment likely to be characterized by stagflation and a retrenchment of the globalization trend of the last two decades, the ability of private equity-owned businesses to maintain margins through pricing power, in addition to cost rationalization, will acquire even greater importance as multiple contraction is largely inevitable in the context of rising interest rates. The WSIB's private equity portfolio continues to be positioned for resilience, while prepared to withstand possible bouts of volatility.

HIGHLIGHTS

- Approximately \$7.8 billion in new commitments to funds were closed during FY 2022, compared to \$7.3 billion closed in FY 2021
- Commitments were made to 26 private equity partnerships during FY 2022
- The portfolio remains largely on target in terms of strategy and geography vs the model portfolio

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, a commitment was made to a blended credit strategy

OTHER FUNDS UNDER MANAGEMENT

DEFINED CONTRIBUTION RETIREMENT FUNDS

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.

VOLUNTEER FIREFIGHTERS' AND RESERVE OFFICERS' RELIEF AND PENSION FUND

The VFFRO Fund was established to provide retirement and survivor benefits to long-term eligible volunteers who provide qualified services to fire departments, emergency medical services districts, and municipal law enforcement reserves.

LABOR AND INDUSTRIES' (L&I) FUNDS

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

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.

GUARANTEED EDUCATION TUITION (GET) FUND

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)

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

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

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 Intermediate Credit Index.

SAVINGS POOL

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 FUND

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 U.S. Treasury Inflation Protected Securities Index.



FINANCIALS

Overview of Financial Statements (18)

Retirement Funds (19)

Labor and Industries' Funds (61)

Permanent Funds (85)

Guaranteed Education Tuition Fund (108)

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OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the basic financial statements and notes to the financial statements. The financial statements included are for the Retirement Funds, L&I Funds, Permanent Funds, GET, DDEF, WSOS, and Daily Valued Funds. The financial statements are reported separately due to the unique goals and objectives for each set of funds, and each set of funds undergoes a separate financial statement audit.

BASIC FINANCIAL STATEMENTS

The basic financial statements presented include the Statement of Net Investment Position, which reports the assets by general asset category and the related liabilities as of June 30, 2022, and the Statement of Changes in Net Investment Position, which reports the contributions to, withdrawals from, and investment earnings for the fiscal year ending June 30, 2022.

The financial statements and notes were prepared by the investment accounting unit of the WSIB.

NOTES TO THE FINANCIAL STATEMENTS

The notes to the financial statements presented are an integral part of the financial statements and include additional information not readily evident in the financial statements themselves.

CONTACTING WSIB'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of WSIB's investment activities.

If you have any questions about this report or need additional information, contact:

The Washington State Investment Board
2100 Evergreen Park Drive SW
Olympia, WA 98504-0916

Phone: 360-956-4600

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RETIREMENT FUNDS



INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF THE WASHINGTON STATE INVESTMENT BOARD

OLYMPIA, WASHINGTON

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the 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, 2022, and the related statement of changes in fiduciary net investment position for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the fiduciary net investment position of the Retirement Funds as of June 30, 2022, 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.

BASIS FOR OPINION

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Retirement Funds and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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EMPHASIS OF MATTER

As discussed in Note 9 to the financial statements, total investments in the Retirement Funds include investments valued at \$83.8 billion (56% of total investments) as of June 30, 2022, 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.

RESPONSIBILITIES OF MANAGEMENT FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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 RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Retirement Funds' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2022 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 grant agreements 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 20, 2022

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, 2022. 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, 2022. The following table compares the fiduciary net investment position of each major investment classification at June 30, 2022, with those at June 30, 2021. 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

Fiscal Year 2022 began with concerns around supply chain disruptions, rising inflation, and a peak in the rate of economic growth. Increased regulation of the Chinese technology sector and fears around the potential default of a large Chinese property developer hampered emerging market returns. In the wake of the pullback in the Chinese equity market, the Morgan Stanley Capital International (MSCI) Emerging Markets (EM) Investable Market Index (IMI) was down 7.4 percent, while the MSCI Developed Market World IMI returned (0.2) percent for the quarter. The U.S. Federal Reserve (Fed) announced their plan to slow the pace of its bond buying program, also known as tapering. Tapering is a controlled way to phase out quantitative easing while managing the continued economic recovery. The indication of tapering from the Fed in September caused an increase in the U.S. 10-year Treasury rate by 0.2 percent for the month to finish the quarter at 1.5 percent.

In the second quarter of Fiscal Year 2022, the emergence of the highly infectious Omicron variant caused an increase in equity market volatility. Markets rebounded quickly after knowledge that the new variant was not as potent as the previous Delta variant. Strong quarterly corporate earnings and potential for further growth in Fiscal Year 2022 outweighed the risk factors in the second quarter. The Fed voted to maintain the current federal funds target rate and announced plans to accelerate the tapering of asset purchases from \$15.0 billion to \$30.0 billion per month, beginning in January 2022. The MSCI Developed Market World IMI returned 7.1 percent for the quarter. Emerging market countries underperformed the developed markets in the second quarter. Global equity markets rallied to end the second quarter with strong positive returns for the third consecutive calendar year.

Global markets were faced with a myriad of concerns in the third quarter of the fiscal year. Russia's invasion of Ukraine caused a major global shock and the markets reacted, with equities declining and bond prices falling. Commodity prices continued to increase, which contributed to a further surge in inflation. Increased price pressure, coupled with the economic impact of the invasion, presented a challenge for global central banks to slow down inflation while

supporting economic growth. The MSCI Developed Market World IMI returned (5.3) percent and the MSCI Emerging Markets IMI returned (6.7) percent in the third quarter. In a much-anticipated action, the Fed raised the target rate by 0.25 percent on March 16th and made it clear that further increases will follow. Interest rates increased dramatically, with the U.S. 10-year Treasury rate jumping 0.8 percent to end the quarter at 2.3 percent, the highest rate since April 2019 at 2.5 percent.

The close of the fiscal year marked the end to another very difficult quarter for global equity markets in a year already full of challenges. Developed market equities returned their worst performance for the fiscal year in over 50 years. The ongoing conflict in Ukraine, central banks tightening monetary policy, and rapidly rising inflation worldwide contributed to negative investor sentiment. Headline U.S. inflation reported in June continued to be elevated through year end at 8.6 percent, the highest it has been since 1981. In an attempt to reduce inflation without causing a recession, the Fed raised interest rates twice during the quarter. The Fed increased the target rate 0.50 percent in May and 0.75 percent in June to bring the target rate range to 1.5 to 1.75 percent. The rate hike in June was the first increase of this magnitude since November 1994. The Fed rate hikes caused U.S. interest rates to significantly increase in the last quarter, with the U.S. 10-year Treasury rate climbing 0.7 percent to end the fiscal year at 3.0 percent. The MSCI Developed Market World IMI returned (16.3) percent for the quarter, and (15.3) percent for the fiscal year. Emerging Markets slightly outperformed developed markets for the quarter. The MSCI Emerging Markets IMI returned (12.1) percent for the quarter, and (24.8) percent during the last one-year period. Credit spreads widened along with the selloff in global equities. Investment grade spreads widened 39 basis points in the quarter to 155 basis points, which was 75 basis points higher for the fiscal year. High yield spreads widened 244 basis points in the quarter to 569 basis points, which was 301 basis points higher for the fiscal year.

OVERVIEW OF SIGNIFICANT 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.

During the prior fiscal year, the Volunteer Firefighters’ and Reserve Officers’ (VFFRO) liquidated their ownership of the CTF and transferred the proceeds to STIF where it remained until November 2021. An asset allocation policy for the VFFRO was approved in November 2021 and the investments were rebalanced to policy targets. The policy has a 70 percent allocation to public equity, and a 30 percent allocation to fixed income. The equity component is a passively managed commingled account designed to track the return of a broad global equity benchmark, MSCI All Country World Investable Market Index (MSCI ACWI IMI). The fixed income component is an allocation to the Daily Valued Bond Fund (Bond Fund), a commingled investment fund managed by the WSIB. The VFFRO investment balances are included in the plan specific sections of the accompanying financial statements.

After many years of research and planning, the CTF was officially incorporated to the glide paths of the Retirement Strategy Funds (RSF) in October 2021. The primary benefit is to allow participants exposure to WSIB’s private markets program, which has provided very strong performance in the past. The RSF is a self-directed investment option for the defined contribution (DC) and deferred compensation programs of the state of Washington. In October 2021, the RSF manager contributed \$1,340.3 million to the Commingled Trust Fund (CTF) as the initial investment in the new glide path component. The CTF is also a self-

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directed investment option available to Plan 3 participants. This is referred to as the Total Allocation Portfolio (TAP) in the Department of Retirement Systems' (DRS) website and investment literature.

As a result of a strategic asset allocation study completed in October 2021, the CTF decreased fixed income allocation targets by 1 percent and decreased public equity allocation targets by 2 percent, with a corresponding increase to private equity targets by 2 percent and an increase to tangible assets allocation targets by 1 percent. While the goal is to reach the target (optimal portfolio) as quickly as possible, because of the illiquidity and time-lagging nature of the private market assets classes, it is assumed that it will take until calendar year 2025 to achieve the target. The CTF portfolio was rebalanced in November 2021 to meet the newly approved asset allocation targets for the calendar year. Due to extreme market volatility in the current fiscal year, the CTF was rebalanced between asset classes multiple times to remain within approved policy ranges.

As shown in the following table, the fiduciary net investment position of the Retirements Funds decreased by \$11.6 million during the fiscal year ended June 30, 2022. Net withdrawals from the Retirement Funds during the current fiscal year decreased fiduciary net investment position by \$277.2 million. Net investment income increased fiduciary net investment position by \$265.6 million and was reinvested in the various asset classes of the Retirement Funds.

Net investment income decreased by \$35,709.8 million during the current fiscal year as compared to the prior year, almost entirely from increases in net realized and unrealized losses. During the current fiscal year, all asset classes, except cash and real estate, experienced significant declines in returns from the prior fiscal year. The total current fiscal year return of 5.4 percent was a substantial decrease from the prior year return of 28.7 percent, which resulted in substantial increases in realized and unrealized losses. The WSIB audited financial statements include market value adjustments for alternative assets as of June 30, 2022. 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 depreciation included in the audited financial statements as of June 30, 2022, which is not reflected in the official published retirement fund performance return of 25.8 percent, is \$555.9 million.

During the current fiscal year, the net withdrawals reported decreased from the prior year as a result of the RSF initial investment into the CTF of \$1,340.3 million. As discussed previously, the CTF became part of the glide path of the RSF and received an initial investment which substantially reduced the net amount withdrawn reported in the following table. Net withdrawals by the DRS increased by \$1.75 billion from the previous fiscal year. 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 9.5 percent during the fiscal year.

Transfers between asset classes are done periodically to fund withdrawal requests by the Retirement Plans 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, policy changes, and investment returns impacting the various asset classes.

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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.

	Summarized Change in Fiduciary Net Investment Position and Returns by Asset Class (in Millions)											
	Fiscal Year End June 30, 2022					Fiscal Year End June 30, 2021					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 (**)	\$ 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%
Investment Income:												
Interest, Dividends, and Other Investment Income	9.5	799.2	763.6	1,959.8	3,532.1	4.9	717.7	563.4	1,232.8	2,518.8	1,013.3	40.2%
Realized and Unrealized Gains (Losses)	(304.8)	(3,849.0)	(7,388.8)	8,944.9	(2,597.7)	200.4	(332.0)	13,743.4	20,512.4	34,124.2	(36,721.9)	-107.6%
Less: Investment Expenses	(24.9)	(3.1)	(83.9)	(556.9)	(668.8)	(24.2)	(2.5)	(71.4)	(569.5)	(667.6)	1.2	0.2%
Net Investment Income (Loss)	(320.2)	(3,052.9)	(6,709.1)	10,347.8	265.6	181.1	383.2	14,235.4	21,175.7	35,975.4	(35,709.8)	-99.3%
Net Amount Withdrawn	(277.2)	-	-	-	(277.2)	(694.4)	-	-	-	(694.4)	(417.2)	-60.1%
Transfers Between Asset Classes	314.7	3,675.4	(3,627.9)	(362.2)	-	(38.4)	1,600.0	(2,621.5)	1,059.9	-	N/A	N/A
Ending Fiduciary Net Investment Position (**)	\$ 2,230.8	\$ 25,338.4	\$ 36,997.6	\$ 85,175.6	\$ 149,742.4	\$ 2,513.5	\$ 24,715.9	\$ 47,334.6	\$ 75,190.0	\$ 149,754.0	\$ (11.6)	0.0%
Increase (Decrease) in Fiduciary Net Investment Position	\$ (282.7)	\$ 622.5	\$ (10,337.0)	\$ 9,985.6	\$ (11.6)							
Percent Change in Fiduciary Net Investment Position	-11.2%	2.5%	-21.8%	13.3%	0.0%							
CTF One Year Time Weighted Return - June 30, 2022	0.2%	-10.6%	-16.0%	25.8%	5.4%							
CTF One Year Time Weighted Return - June 30, 2021	0.1%	1.8%	41.2%	33.3%	28.7%							
VFFRO One Year Time Weighted Return - June 30, 2022 (***)	0.2%	N/A	N/A	N/A	-16.3%							
VFFRO One Year Time Weighted Return - June 30, 2021 (***)	0.1%	N/A	N/A	N/A	0.1%							

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

(***) VFFRO invested in debt and equity securities in November 2021, a full year return is not yet available

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.

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The fiduciary net investment position of the cash and cash equivalents portfolio decreased by \$282.7 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, 2022, net of the returns in the overlay program, were 0.2 percent, which was a slight increase over the prior year return of 0.1 percent. Short-term rates moved considerably higher over the fiscal year as a result of Fed actions. The Fed increased the target range for federal funds by 150 basis points during the fiscal year, which had a positive impact on cash returns. The Fiduciary Net Investment Position of Cash and Cash Equivalents includes 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. The overlay program exposure was 100.0 percent invested in fixed income futures throughout the fiscal year due to an overweight to equities in the CTF.

The size of the overlay exposure varies in response to the amount of cash the CTF holds. During the current fiscal year, the average exposure was 1.9 percent, with a range of 1.3 percent to 2.3 percent of total fiduciary net investment position. The fixed income market returned (10.9) percent as measured by the U.S. Bloomberg Barclays U.S. Universal Index for the year ending June 30, 2022. With the negative return in the fixed income markets, the overlay program had a negative impact on the overall return of the CTF for the fiscal year ending June 30, 2022.

- **Debt securities** fiduciary net investment position increased by \$622.5 million. Interest income net of investment expenses of \$796.1 million was reinvested in debt securities during the current fiscal year. Net realized and unrealized losses decreased invested balances in this asset class by \$3,849.0 million, due to a significant decrease in returns over the current fiscal year. Debt securities returned (10.6) percent in the current fiscal year, compared to 1.8 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 \$3,675.4 million to maintain strategic investment targets. The fiduciary net investment position and performance of debt securities includes \$878.7 million of cash balances used for trading purposes.

Performance of the CTF fixed income portfolio was negative for the year at (10.6) percent, outperforming the benchmark return, the Bloomberg Barclays U.S. Universal Bond Index of (10.9) percent. During the current fiscal year, interest rates rose substantially, causing bond prices to decrease, which negatively impacted overall bond market returns. Credit spreads widened substantially during the current fiscal year, which further contributed to negative bond market returns. The combination of rising interest rates and widening credit spreads caused the bond market returns to be significantly lower than the previous year. The outperformance to the benchmark can be attributed to the shorter maturity profile in comparison to its benchmark, which made the portfolio less sensitive to interest rate changes, coupled with security selection and asset allocation between industries and sectors.

VFFRO invested in the Bond Fund, a commingled investment fund managed by the WSIB, in November 2021. The initial investment of \$75.5 million and the current year market losses of \$6.3 million are included in the debt securities in the above schedule. The VFFRO was invested entirely in STIF in the

previous year. Accordingly, the VFFRO does not yet have an annual debt return to report in the above schedule. See Daily Valued Fund audited financials for additional information on this investment vehicle.

- **Equity securities** fiduciary net investment position decreased by \$10,337.0 million from the prior fiscal year. Dividend income net of investment expenses of \$679.7 million was reinvested to equity securities during the current fiscal year. Net realized and unrealized losses decreased balances in this asset class by \$7,388.8 million. Asset allocation rebalancing transfers were done during the year and equity sale proceeds totaling \$3,627.9 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 \$435.5 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 (16.0) percent during the fiscal year, modestly better than the benchmark return of (16.3) percent. The CTF's public equity portfolio is expected to perform better than its passive benchmark in a market where returns are negative, given that the program is designed to provide downside protection.

VFFRO invested in a passively managed commingled account designed to track the return of a broad global equity benchmark, the MSCI ACWI IMI, in November 2021. The initial investment of \$176.1 million and current year market losses of \$34.9 million are included in the equity securities in the above schedule. The VFFRO was invested entirely in cash in the previous year. Accordingly, the fund does not yet have an annual equity return to report in the above schedule.

The first half of the fiscal year began on a positive note, with the global equity benchmark, MSCI ACWI IMI, a broad barometer of overall equity performance, returning 5.0 percent in the first six months of the fiscal year. However, in the second half of the year, the market environment changed dramatically, and the benchmark experienced two consecutive quarters of negative returns, declining greater than 15 percent in the final quarter of Fiscal Year 2022 alone. A confluence of events brought about the turbulent markets during this period, including geopolitical factors, a shift to tighter monetary policy due to higher inflation and a continuation of the COVID global pandemic.

- **Alternative investments** fiduciary net investment position increased by \$9,985.6 million. Ordinary income distributions net of investment expenses increased this asset class by \$1,402.9 million. Net realized and unrealized gains increased balances in this asset class by \$8,944.9 million. During the current fiscal year, alternative asset managers called capital and expenses of \$13,980.7 million and made distributions of cash and stock amounting to \$14,342.9 million. Proceeds from alternative asset managers totaling \$362.2 million were transferred to other asset classes to maintain target allocations.

Investment income net of investment expenses increased by \$739.6 million over the previous fiscal year resulting from an increase in income distributions from general partners of \$727.0 million and a decrease of management fees and expenses paid of \$12.6 million. Realized and unrealized gains decreased by \$11,567.5 million over the previous fiscal year, the result of a decrease 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, 2022. Alternative asset

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returns reflected in the total returns are lagged by one quarter as of March 31st of each year, which is standard practice due to availability of data within this asset class. The amount of market depreciation included in the audited financial statements as of June 30, 2022, which is not reflected in the official published performance return for alternative assets noted below of 25.8 percent, is \$555.9 million.

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

Alternative Investment Returns *	FY 2022	FY 2021
Private Equity	19.9%	55.1%
Real Estate	40.8%	13.2%
Tangible Assets	11.1%	15.6%
Innovation	17.0%	34.1%
Total Alternative Asset Return	25.8%	33.3%

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

The net asset value of the private equity portfolio at the end of Fiscal Year 2022 was \$41.9 billion, approximately \$346.8 million higher than the previous fiscal year. The portfolio returned 19.9 percent in the current fiscal year, a significant decline from the previous year return of 55.1 percent. While the equity market began the year on a positive note, the market events mentioned previously caused a significant decline in returns during the last quarter of the fiscal year. Private equity valuations tend to lag the public markets by at least one quarter, the adverse impact of the steep equity decline was still muted as of March. The returns included in the above table were for the one-year period ending March 31st of each year.

The WSIB's real estate portfolio focuses primarily on creating a high-quality, long-term, stable income stream for the CTF. Investments' target risk-adjusted returns are consistent with long-term expectations for the asset class. Most 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 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 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.

RETIREMENT FUNDS

The real estate portfolio produced strong returns in FY 2022. Being heavily weighted to industrial/warehouse properties was the largest contributor to the positive results. Geographically, the U.S. provided the best returns globally. The portfolio continues to produce steady income yields, which is a primary goal of the program. The importance of having a long-term investment horizon is evident in the attractive returns for the real estate portfolio over long periods and through multiple economic cycles. In general, the drivers of 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. Distributions and capital calls rebounded significantly in the current fiscal year compared to the previous fiscal year. Both capital calls and distributions were the largest yearly totals since the tangible assets was created in fiscal year 2007. Performance exceeded the benchmark performance of CPI plus 400 basis points through March 2022, while the June 2022 returns are lagged.

The innovation portfolio's primary investment strategy is to provide the WSIB with an ability to invest in investment ideas that fall outside the traditional asset classes currently approved by the Board, with the secondary purpose of providing the WSIB with comfort and demonstrated success before committing large dollar amounts to the strategy. The innovation portfolio added one new investment during the current fiscal year. Capital is gradually being deployed as WSIB seeks to identify investments outside of existing asset classes. Performance is generally in line with expectations.

As shown in the following table, securities on loan decreased by \$139.6 million and collateral held under securities lending agreements decreased accordingly. The second half of the fiscal year saw extreme volatility across all public markets as discussed previously. Hedge funds, normally a significant source of borrowing activity, remained on the sidelines during the market volatility, contributing to a reduction in demand. While the broader market has seen less lending demand, some borrowers were willing to pay premiums to borrow specific securities, including a resurgence of demand for some "meme-stocks", as well as companies in the electric vehicle space. In the international equity lending market, demand for previously popular lendable securities continued to decline during the current year as well.

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:	June 30, 2022	June 30, 2021	Increase (Decrease)	Percent Change
Securities on Loan Fiscal Year End	\$ 328.6	\$ 468.2	\$ (139.6)	-29.8%
Cash Collateral Held Under Securities Lending Agreements	285.5	249.5	36.0	
Non-Cash Collateral Held Under Securities Lending Agreements	60.2	240.0	(179.8)	
Total Collateral Held	\$ 345.7	\$ 489.5	\$ (143.8)	-29.4%

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, 2022

SEE NOTES TO FINANCIAL STATEMENTS

	Commingled Trust Fund	Plan-Specific Investments	Total	Percent of Plan Assets
ASSETS				
Investments				
CASH AND CASH EQUIVALENTS	\$ 3,450,856,963	\$ 104,626,396	\$ 3,555,483,359	2.4%
DEBT SECURITIES				
Mortgage and Other Asset Backed Securities	1,514,774,182	-	1,514,774,182	
Commingled Intermediate Credit	-	69,220,250	69,220,250	
Corporate Bonds	16,009,171,683	-	16,009,171,683	
U.S. Government and Agency Securities	4,348,571,383	-	4,348,571,383	
Foreign Government and Agency Securities	2,315,607,338	-	2,315,607,338	
Total Debt Securities	24,188,124,586	69,220,250	24,257,344,836	16.3%
EQUITY SECURITIES				
Common and Preferred Stock	19,596,499,309	-	19,596,499,309	
Commingled Equity Trusts and Mutual Funds	15,517,953,225	141,231,921	15,659,185,146	
Real Estate Investment Trusts	250,656,036	-	250,656,036	
Depository Receipts and Other Miscellaneous	821,724,391	-	821,724,391	
Total Equity Securities	36,186,832,961	141,231,921	36,328,064,882	24.3%
ALTERNATIVE INVESTMENTS				
Private Equity	41,858,719,812	-	41,858,719,812	
Real Estate	32,705,496,581	-	32,705,496,581	
Tangible Assets	9,328,596,468	-	9,328,596,468	
Innovation	1,153,350,962	-	1,153,350,962	
Total Alternative Investments	85,046,163,823	-	85,046,163,823	57.0%
Total Investments	148,871,978,333	315,078,567	149,187,056,900	100.0%
Collateral Held Under Securities Lending Agreements	285,525,977	-	285,525,977	
Investment Earnings Receivable	445,236,444	372,064	445,608,508	
Receivables for Investments Sold	1,386,160,645	-	1,386,160,645	
Open Foreign Exchange Contracts Receivable	16,519,549,172	-	16,519,549,172	
Total Assets	167,508,450,571	315,450,631	167,823,901,202	
LIABILITIES				
Obligations Under Securities Lending Agreements	285,525,977	-	285,525,977	
Investment Management Fees Payable	17,986,393	32,049	18,018,442	
Payable for Investments Purchased	1,432,791,559	-	1,432,791,559	
Open Foreign Exchange Contracts Payable	16,345,194,441	-	16,345,194,441	
Total Liabilities	18,081,498,370	32,049	18,081,530,419	
FIDUCIARY NET INVESTMENT POSITION	\$ 149,426,952,201	\$ 315,418,582	\$ 149,742,370,783	

RETIREMENT FUNDS

RETIREMENT FUNDS STATEMENT OF CHANGES IN FIDUCIARY NET INVESTMENT POSITION YEAR ENDED JUNE 30, 2022

SEE NOTES TO FINANCIAL STATEMENTS

	Commingled Trust Fund	Plan-Specific Investments	Total
Net Investment Income			
Investment Income			
Interest, Dividends, and Other Investment Income	\$ 3,530,863,391	\$ 1,271,361	\$ 3,532,134,752
Net Realized Gains (Losses)	7,778,261,594	(1,018)	7,778,260,576
Unrealized Gains (Losses)	(10,334,898,450)	(41,043,043)	(10,375,941,493)
Less:			
Investment Expenses	(646,755,870)	(379,001)	(647,134,871)
WSIB Operating Expenses	(21,606,318)	(36,374)	(21,642,692)
Net Investment Income (Loss)	305,864,347	(40,188,075)	265,676,272
Net Withdrawal by Retirement Plans	-	(277,243,381)	(277,243,381)
Investments in Commingled Funds	1,816,779,789	(1,816,779,789)	-
Withdrawals from Commingled Funds	(2,069,648,084)	2,069,648,084	-
Increase (Decrease) in Fiduciary Net Investment Position	\$ 52,996,052	\$ (64,563,161)	\$ (11,567,109)
FIDUCIARY NET INVESTMENT POSITION, JUNE 30, 2021	149,373,956,149	379,981,743	149,753,937,892
FIDUCIARY NET INVESTMENT POSITION, JUNE 30, 2022	\$ 149,426,952,201	\$ 315,418,582	\$ 149,742,370,783

NOTES TO FINANCIAL STATEMENTS

NOTE 1. DESCRIPTION OF FUNDS AND SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF FUNDS

The Retirement Funds consist of the investments from retirement contributions from employer and employee participants of the plans listed in Note 2, as well as the related earnings. The financial statements present only the activity of the Retirement Funds, as managed by the WSIB. The WSIB has exclusive control of the investments in the Retirement Funds included in this financial statement. The DRS acts as the administrating agency for all plans listed in Note 2, except for the VFFRO, which is administered by the Board for Volunteer Firefighter and Reserve Officers (BVFF). The financial statements do not present the financial position or the results of operations of the WSIB, DRS, or BVFF.

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. CTF securities lending income for the fiscal year ended June 30, 2022, was \$4.4 million and expenses associated with securities lending were \$0.9 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 20 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, most retirement plans hold short-term investments that are used to manage the cash needs of each retirement plan. These short-term investments and the VFFRO debt and equity investments are referred to as “Plan-Specific Investments” in the accompanying financial statements.

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’ and Reserve Officers’ (VFFRO); 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), State Board for Community and Technical Colleges (SBCTC), and the Retirement Strategy Fund (RSF). 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 CTF is a component of each RSF vintage years’ glide path. The RSF are self-directed investment options of the DC Plans and Deferred Compensation Programs. 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	\$ 6,987,247,163	\$ 1,150,721	\$ 6,988,397,884	4.7%
LEOFF 2	19,140,708,712	747,521	19,141,456,233	12.8%
PERS 1	9,054,710,384	4,122,866	9,058,833,250	6.0%
PERS 2/3 (DC and DB Plans)	61,288,286,194	16,508,792	61,304,794,986	41.0%
PUBLIC SAFETY EMPLOYEES 2	1,263,696,741	6,106,508	1,269,803,249	0.8%
SCHOOL EMPLOYEES 2/3 (DC and DB Plans)	10,645,016,142	13,206,761	10,658,222,903	7.1%
STATE PATROL 1	1,536,677,361	310,270	1,536,987,631	1.0%
STATE PATROL 2	188,993,080	1,601,970	190,595,050	0.1%
TEACHERS 1	6,796,621,796	7,294,573	6,803,916,369	4.5%
TEACHERS 2/3 (DC and DB Plans)	30,582,873,562	53,060,264	30,635,933,826	20.6%
VFFRO	-	210,449,432	210,449,432	0.1%
LEOFF RETIREMENT BENEFIT IMPROVEMENT	450,539,971	-	450,539,971	0.3%
HERP - UW	96,365,919	622,877	96,988,796	0.1%
HERP - WSU	18,537,841	70,684	18,608,525	0.0%
HERP - EWU	3,697,530	15,072	3,712,602	0.0%
HERP - CWU	3,733,065	17,931	3,750,996	0.0%
HERP - TESC	1,415,499	4,997	1,420,496	0.0%
HERP - WWU	5,465,871	21,785	5,487,656	0.0%
HERP - SBCTC	33,016,911	105,558	33,122,469	0.0%
Retirement Strategy Funds	1,329,348,459	-	1,329,348,459	0.9%
Total Fiduciary Net Investment Position at June 30, 2022	\$ 149,426,952,201	\$ 315,418,582	\$ 149,742,370,783	100.0%

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	\$ 78,228,647	\$ -	\$ 78,228,647	\$ 15,796,170,483
Public Equity Passive Management	1,234,455	719,778	1,954,233	21,201,351,161
ALTERNATIVE INVESTMENTS				
Private Equity	402,885,826	154,900,000	557,785,826	41,921,290,185
Real Estate	30,558,358	52,100,000	82,658,358	32,771,317,428
Tangible Assets	108,285,790	(17,000,000)	91,285,790	9,329,771,387
Innovation	11,182,615	26,000,000	37,182,615	1,153,343,212
CASH MANAGEMENT	4,693,447	-	4,693,447	2,230,763,222
DEBT SECURITIES	-	-	-	25,338,363,705
OTHER FEES				
Consultants and Accounting	2,533,755	-	2,533,755	N/A
Legal Fees	1,200,307	-	1,200,307	N/A
Research Services	2,996,261	-	2,996,261	N/A
Securities Lending Rebates and Fees	900,797	-	900,797	N/A
Custody Expense	2,244,111	-	2,244,111	N/A
Miscellaneous Fees	190,502	-	190,502	N/A
	<u>\$ 647,134,871</u>	<u>\$ 216,719,778</u>	<u>\$ 863,854,649</u>	<u>\$ 149,742,370,783</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, 2022, the Retirement Funds had a total of \$34,912.2 million in unfunded commitments in the following asset classes (in millions):

Private Equity	\$	20,442.5
Real Estate	\$	9,204.8
Tangibles	\$	4,262.2
Innovation	\$	1,002.7
Total	\$	34,912.2

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, 2022, 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, 2022, 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, 2022. 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, 2022, 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, 2022, 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, 2022, of \$740.3 million invested in one emerging market commingled equity investment trust funds.

VFFRO has no formal policy to limit foreign currency risk. The only security held by the VFFRO with foreign currency exposure at June 30, 2022, consisted of \$55.9 million invested in an international commingled equity index funds (MSCI ACWI IMI). The VFFRO's exposure to foreign currency risk is presented in Schedule 3.

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, 2022, was approximately \$328.6 million within the CTF. The securities on loan remain in the Statement of Fiduciary Net Investment Position in their respective categories. At June 30, 2022, cash collateral received, totaling \$285.5 million, is reported as a securities lending obligation. The fair value of the reinvested cash collateral, totaling \$285.5 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, 2022, was \$60.2 million.

RETIREMENT FUNDS

Equity securities were loaned and collateralized by the Retirement Funds' agent with cash and U.S. Government or U.S. Agency Securities, including U.S. Agency Mortgage-Backed Securities (exclusive of letters of credit). When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest of the loaned securities. The following table summarizes the securities held from reinvestment of cash collateral and securities received as collateral at June 30, 2022.

In Millions	Cash Collateral	Non-Cash Collateral	Total
Repurchase Agreements	\$ 163.1	\$ -	\$ 163.1
Yankee CD	42.3	-	42.3
Commercial Paper	60.5	-	60.5
U.S. Treasuries	-	60.2	60.2
Cash Equivalents and Other	19.6	-	19.6
Total Collateral Held	\$ 285.5	\$ 60.2	\$ 345.7

During Fiscal Year 2022, securities lending transactions could be terminated on demand by either the Retirement Funds or the borrower. As of June 30, 2022, the cash collateral held had an average duration of 3.57 days and an average weighted final maturity of 55.68 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 2022 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 2022, the Retirement Funds incurred no losses resulting from a default by either the borrowers or the securities lending agents.

NOTE 9. FAIR VALUE

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

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

Inputs used to measure the fair value might fall in different levels of the fair value hierarchy. The Retirement Funds measure fair value using the lowest level input that is significant to the fair value measurement of each investment with Level 3 being the lowest level. The determination of fair value of an investment is not necessarily an indication of the risk or liquidity associated with the investments. In determining the appropriate levels, the Retirement Funds performed a detailed analysis of the assets and liabilities that are subject to Statement 72. Valuation policies and procedures are managed by the Investment Accounting and Administration Unit 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 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.

RETIREMENT FUNDS

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

The following table presents CTF fair value measurements as of June 30, 2022:

	Fair Value	Fair Value Measurements Using:		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
INVESTMENTS				
DEBT SECURITIES				
Mortgage and Other Asset Backed Securities	\$ 1,514,774,182	\$ -	\$ 1,514,774,182	\$ -
Corporate Bonds	16,009,171,683	-	16,009,171,683	-
U.S. and Foreign Government and Agency Securities	6,664,178,721	-	6,664,178,721	-
Total Debt Securities	24,188,124,586	-	24,188,124,586	-
EQUITY SECURITIES				
Common and Preferred Stock	19,596,499,309	19,544,585,104	49,442,321	2,471,884
Depository Receipts and Other Miscellaneous	821,724,391	821,722,149	2,242	-
Mutual Funds and Exchange Traded Funds	25,238,306	25,238,306	-	-
Real Estate Investment Trusts	250,656,036	250,656,036	-	-
Total Equity Securities	20,694,118,042	20,642,201,595	49,444,563	2,471,884
ALTERNATIVE INVESTMENTS				
Real Estate	1,046,008,781	-	-	1,046,008,781
Tangible Assets	235,354,502	227,936,966	-	7,417,536
Total Alternative Investments	1,281,363,283	227,936,966	-	1,053,426,317
Total Investments By Fair Value Level	46,163,605,911	20,870,138,561	24,237,569,149	1,055,898,201
INVESTMENTS MEASURED AT NET ASSET VALUE				
Collective Investment Trust Funds (Equity Securities)	15,492,714,919			
Private Equity	41,858,719,812			
Real Estate	31,659,487,800			
Tangible Assets	9,093,241,966			
Innovation	1,153,350,962			
Total Investments at Net Asset Value	99,257,515,459			
Total Investments Measured at Fair Value	\$ 145,421,121,370			
OTHER ASSETS (LIABILITIES) AT FAIR VALUE				
Collateral Held Under Securities Lending Agreements	\$ 285,525,977	\$ -	\$ 285,525,977	\$ -
Net Foreign Exchange Contracts Receivable - Forward and Spot	174,354,731	-	174,354,731	-
Margin Variation Payable - Futures Contracts	(15,135,130)	(15,135,130)	-	-
Obligations Under Securities Lending Agreements	(285,525,977)	-	(285,525,977)	-
Total Other Assets (Liabilities) Measured at Fair Value	\$ 159,219,601	\$ (15,135,130)	\$ 174,354,731	\$ -

RETIREMENT FUNDS

The following table presents VFFRO fair value measurements as of June 30, 2022:

	Fair Value
INVESTMENTS	
INVESTMENTS MEASURED AT NET ASSET VALUE	
Commingled Equity Index Funds	\$ 141,231,921
Commingled Intermediate Credit	69,220,250
Total Investments at Net Asset Value	210,452,171
Total Investments Measured at Fair Value	\$ 210,452,171

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) within the CTF. 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 United States IMI (MSCI US IMI) and the MSCI Emerging Markets IMI (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.

RETIREMENT FUNDS

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.

VFFRO invests in Collective Investment Trusts operated by a bank or trust company and groups assets contributed into a commingled investment fund. In addition, the VFFRO invests in the 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.

VFFRO's 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 U.S. Intermediate Credit Index. The VFFRO 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).

ALTERNATIVE ASSETS (INVESTMENTS MEASURED AT NET ASSET VALUE)

The fair value of investments that are organized as limited partnerships and have no readily ascertainable fair value (such as private equity, real estate, and tangible assets) has been determined by using the net asset value per share (or its equivalent) of the Retirement Funds' ownership interest in partners' capital. These values are based on the individual investee's capital account balance reported at fair value by the general partner, at the most recently available reporting period, adjusted for subsequent contributions, distributions, management fees, changes in values of foreign currency, and published market prices for certain securities.

The limited partnerships' annual financial statements are audited by independent auditors. These investments are valued at approximately \$83.8 billion (56.1 percent of total investments) as of June 30, 2022. 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, 2022 reported net asset value.

RETIREMENT FUNDS

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	Innovation	Total	Percent of Total
Less than 3 years	\$ 46,672,896	\$ 3,566,915	\$ -	\$ 966,292	\$ 51,206,103	0.1%
3 to 9 years	4,377,259,306	2,019,927,262	440,883,101	-	6,838,069,669	8.2%
10 years and over	37,434,787,610	29,635,993,623	8,652,358,865	1,152,384,670	76,875,524,768	91.7%
Total	\$ 41,858,719,812	\$ 31,659,487,800	\$ 9,093,241,966	\$ 1,153,350,962	\$ 83,764,800,540	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 22 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).

RETIREMENT FUNDS

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 60 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.

INNOVATION

This includes 10 limited liability structures and funds. The primary goal of the innovation portfolio is to provide the WSIB with an ability to invest in investment ideas outside the traditional asset classes currently used, with a secondary purpose of providing the WSIB with comfort and demonstrated success before committing large dollar amounts to the strategy (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 into account quoted prices, nominal yield spreads, benchmark yield curves, prepayment speeds, and other market corroborated inputs.

Gains and losses on futures contracts are settled daily, based on a notional (underlying) principal value, and do not involve an actual transfer of the specific instrument. The margin variation represents the current gain or loss remaining to be settled from the prior day. The custodian bank provides quoted market prices for these securities from a reputable pricing vendor.

NOTE 10. 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, 2022, 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, 2022, the Retirement Funds’ counterparty risk was approximately \$598.2 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, 2022, the Retirement Funds had outstanding forward currency contracts with a net unrealized gain of \$174.4 million. At June 30, 2022, 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 \$16,485.5 million and \$16,311.1 million, respectively. The contracts have varying settlement dates, ranging from July 1, 2022, to June 20, 2024.

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, 2022, 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 \$64.7 million at June 30, 2022. 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, 2022 - Investment Derivative Instrument	Notional
		Amount	Amount	
FUTURES CONTRACTS:				
Bond Index Futures	Investment	\$ (217,220,640)	\$ (12,963,108)	2,165,700,000
Equity Index Futures	Investment	(11,180,305)	(2,172,022)	444,480
		<u>\$ (228,400,945)</u>	<u>\$ (15,135,130)</u>	<u>2,166,144,480</u>
FORWARD CURRENCY CONTRACTS	Investment	<u>\$ 98,105,785</u>	<u>\$ 174,357,552</u>	<u>16,808,712,399</u>

NOTE 11. DOLLAR WEIGHTED RETURNS

The dollar weighted return for the Retirement Funds for fiscal year end are as follows:

Dollar Weighted Return	
CTF	0.19%

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 2022.

COMMINGLED TRUST FUND

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	19%	15% - 23%	+ or - 4%
Tangible Assets	8%	5% - 11%	+ or - 3%
Real Estate	18%	15% - 21%	+ or - 3%
Public Equity	30%	25% - 35%	+ or - 5%
Private Equity	25%	20% - 30%	+ or - 5%
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.

RETIREMENT FUNDS

While the goal to reach the target (optimal portfolio) as quickly as possible, because of the illiquidity and time-lagging nature of the Real Estate and Tangible Assets classes, it is assumed that it will take time to achieve the target. The following table reflects the target allocations projected to be achieved at the conclusion of the following calendar years:

Asset Class	2022	2023	2024	2025	Range
Fixed Income	20.9%	20.3%	19.6%	19.0%	+ or - 4%
Tangible Assets	6.1%	6.7%	7.4%	8.0%	+ or - 3%
Real Estate	18.0%	18.0%	18.0%	18.0%	+ or - 3%
Public Equity	29.0%	29.5%	29.7%	30.0%	+ or - 5%
Private Equity	26.0%	25.5%	25.3%	25.0%	+ or - 5%

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 of the CTF is managed to achieve the highest return possible consistent with the desire to manage interest rate and credit risk, provide diversification to the overall investment program, to provide liquidity to the Retirement Funds investment program, and to meet or exceed the return of the Bloomberg Barclays U.S. Universal Index. Sources of outperformance are expected to include interest rate anticipation, sector rotation, credit selection, and diversification.

PERMISSIBLE FIXED INCOME MARKET SEGMENTS

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

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

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

FIXED INCOME PORTFOLIO CONSTRAINTS

- RCW 43.33A.140 prohibits a corporate fixed income issues cost from exceeding 3 percent of the Retirement CTF's market value at the time of purchase and prohibits its market value from exceeding 6 percent of the Retirement CTF's market value at any time. The Retirement Funds are managed with a more restrictive concentration constraint than required by the cited RCW. Exposure to any corporate issuer will not exceed 3 percent of the Retirement CTF fixed income portfolio's market value.
- The par value of bonds from any one issuer with a below investment grade rating (as defined by Bloomberg Barclays Global Family of fixed income indices) shall not exceed 1 percent of the total portfolio's par value.
- Total market value of below investment grade credit bonds (as defined by Bloomberg Barclays Global Family of fixed income indices) shall not exceed 15 percent of the market value of the fixed income portfolio.
- Although below investment grade mortgage-backed, asset-backed, or commercial mortgage-backed securities may not be purchased, portfolio holdings that are downgraded to those levels or are no longer rated may continue to be held.
- The total market value of below investment grade mortgage-backed, asset-backed, and commercial mortgage-backed securities shall not exceed 5 percent of the market value of the fixed income portfolio.
- The fixed income portfolio's duration is to be targeted within +/- 25 percent of the duration of the portfolio's performance benchmark, the Bloomberg Barclays U.S. Universal Index.

RETIREMENT FUNDS

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.

In addition to the objectives and goals stated previously, the private equity investment program seeks to achieve a superior total return as compared to traditional asset classes and exceed the return of the MSCI ACWI IMI with USA Gross by 300 basis points in the long run. For inclusion in the CTF performance report, the benchmark will be lagged one calendar quarter in line with the valuation lag.

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 markets, 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. For inclusion in the CTF performance report, that comparative index will be lagged one calendar quarter in line with the valuation lag.

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.

RETIREMENT FUNDS

Currently, there are 10 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. For inclusion in the CTF performance report, the benchmark will be lagged one calendar quarter in line with the valuation lag.

VFFRO FUND

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 investment objectives of the program are:

- Promote the financial stability of the program.
- Ensure sufficient assets are available to fund benefit needs.
- Subject to the items above, manage the assets to achieve a maximum return at a prudent level of risk.
- Invest in a manner that will not compromise public trust in the program.

Performance of the investment portfolio shall be judged relative to its investment objectives, risk constraints, and investment approach. The Fund has a relative performance objective over the long term equal to or in excess to their benchmark return. The benchmark for the program is a custom blend of the weighted average of the benchmarks for the underlying investments based on the target allocation of each asset class.

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 43.33A.140.
- In accordance with RCW 43.33A.140, no corporate fixed income issue's 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.
- Assets shall be diversified at a prudent level to moderate fluctuations in the market value of the program.

RETIREMENT FUNDS

PERMISSIBLE INVESTMENTS

PUBLIC EQUITY

The public equity component of the account will be invested passively to track the return of a broad global equity benchmark. The benchmark for the public equity component is the MSCI ACWI IMI with U.S. Gross.

FIXED INCOME

The fixed income portion of the account will be invested in the WSIB Bond Fund. The benchmark for the Bond Fund is the Bloomberg U.S. Intermediate Credit Index.

CASH

The cash component of the account, if any, will be invested in a portfolio of high-quality securities, including U.S. Treasury bills, notes, and other obligations issued by the U.S. government or its agencies with a weighted average maturity of less than 90 days. The benchmark for the cash component is the 90-day Treasury bill return.

ASSET ALLOCATION

Assets will be rebalanced across asset classes when market values of the assets fall outside the policy ranges. Rebalancing will be accomplished first by using normal cash flows and second by the reallocation of assets across asset classes. The timing of the rebalancing will be based upon market opportunities and the consideration of transaction costs and, therefore, need not occur immediately.

Asset Class	Target	Policy Range
Global Equity	70%	65% - 75%
Fixed Income	30%	25% - 35%
Cash	0%	0% - 5%

RETIREMENT FUNDS

SCHEDULE 1

CTF 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	\$ 1,497,944,655	\$ 41,907,940	\$ 1,240,018,001	\$ 216,018,714	\$ -	4.1
Corporate Bonds	16,009,171,683	884,039,392	6,416,894,220	5,689,249,276	3,018,988,795	6.5
U.S. Government and Agency Securities	4,348,571,383	98,859,375	3,054,019,022	493,189,451	702,503,535	5.4
Foreign Government and Agency Securities	2,315,607,338	168,418,541	1,006,384,557	706,010,800	434,793,440	5.9
<i>Totally Internally Managed Fixed Income</i>	24,171,295,059	1,193,225,248	11,717,315,800	7,104,468,241	4,156,285,770	6.1
Mortgage Backed To Be Announced (TBA) Forwards	16,829,527	16,829,527	-	-	-	0.0
Total Retirement Funds Investment Categorized	24,188,124,586	\$ 1,210,054,775	\$ 11,717,315,800	\$ 7,104,468,241	\$ 4,156,285,770	6.1
Investments Not Required to be Categorized						
Cash and Cash Equivalents	3,450,856,963					
Equity Securities	36,186,832,961					
Alternative Investments	85,046,163,823					
Total Investments Not Categorized	124,683,853,747					
Total Investments	\$ 148,871,978,333					

* Duration excludes cash and cash equivalents

VFFRO SCHEDULE OF 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		
Commingled Intermediate Credit	\$ 69,220,250	\$ 6,935,438	\$ 38,152,044	\$ 23,481,467	\$ 651,301	4.3	Schedule 2
Investments Not Required to be Categorized							
Cash and Cash Equivalents	6,693						
Equity Securities	141,231,921						
Total Investments Not Categorized	141,238,614						
Total Investments	\$ 210,458,864						

RETIREMENT FUNDS

SCHEDULE 2

CTF 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	\$ 6,471,510,032	\$ 1,514,520,573	\$ 517,868,100	\$ 4,348,571,383	\$ 90,549,976
Aa1	465,437,011	-	155,716,140	-	309,720,871
Aa2	160,638,553	-	133,605,553	-	27,033,000
Aa3	917,144,827	-	753,163,142	-	163,981,685
A1	1,669,241,837	-	1,185,661,775	-	483,580,062
A2	1,840,133,171	-	1,723,148,021	-	116,985,150
A3	2,414,226,404	-	2,414,226,404	-	-
Baa1	1,956,028,350	-	1,950,902,300	-	5,126,050
Baa2	3,179,566,729	253,609	2,667,944,492	-	511,368,628
Baa3	2,129,133,820	-	2,014,288,890	-	114,844,930
Ba1 or Lower	2,985,063,852	-	2,492,646,866	-	492,416,986
Total	\$ 24,188,124,586	\$ 1,514,774,182	\$ 16,009,171,683	\$ 4,348,571,383	\$ 2,315,607,338

VFFRO CREDIT RATING DISCLOSURES

Moody's Equivalent Credit Rating	Commingled Intermediate Credit	
	Total Fair Value	
Aaa	\$ 1,780,285	
Aa1	2,456,775	
Aa2	1,051,546	
Aa3	3,029,544	
A1	9,589,526	
A2	9,135,651	
A3	11,588,534	
Baa1	8,891,949	
Baa2	13,116,224	
Baa3	7,213,541	
Ba1 or Lower	1,366,675	
Total	\$ 69,220,250	

RETIREMENT FUNDS

SCHEDULE 3

CTF FOREIGN CURRENCY EXPOSURE

Foreign Currency Denomination	Investment Type In U.S. Dollar Equivalent					Total	Percent of Total Investment Balances
	Cash and Cash Equivalents	Debt Securities	Equity Securities	Alternative Assets	Open Foreign Exchange Contracts - Net		
AUSTRALIAN DOLLAR	\$ 2,555,954	\$ 52,686,546	\$ 473,424,420	\$ 418,966,493	\$ (15,208,518)	\$ 932,424,895	0.6%
BRAZILIAN REAL	2,112,011	-	294,104,335	-	(16,974,411)	279,241,935	0.2%
CANADIAN DOLLAR	8,082,655	-	691,897,673	-	(2,490,857)	697,489,471	0.5%
SWISS FRANC	508,793	-	815,210,256	-	9,229,470	824,948,519	0.6%
YUAN RENMINBI	4,510,247	13,190,272	359,577,902	-	(9,173,121)	368,105,300	0.2%
DANISH KRONE	250,014	-	251,154,535	-	3,186,166	254,590,715	0.2%
EURO CURRENCY	4,424,282	-	3,066,839,092	4,711,654,305	70,942,965	7,853,860,644	5.3%
POUND STERLING	6,028,027	-	1,747,254,287	-	(3,703,607)	1,749,578,707	1.2%
HONG KONG DOLLAR	9,185,305	-	876,818,909	-	(6,709)	885,997,505	0.6%
INDONESIAN RUPIAH	891,532	-	81,686,085	-	(16,185)	82,561,432	0.1%
INDIAN RUPEE	408,514	-	372,789,626	-	(1,427,010)	371,771,130	0.2%
JAPANESE YEN	17,980,778	-	2,239,737,532	-	157,222,659	2,414,940,969	1.5%
SOUTH KOREAN WON	619,899	-	405,539,850	-	14,487,474	420,647,223	0.3%
MEXICAN PESO	11,430	-	109,805,600	-	1,372,906	111,189,936	0.1%
NORWEGIAN KRONE	708,045	-	85,948,314	-	1,106,520	87,762,879	0.1%
SWEDISH KRONA	648,824	-	356,058,724	-	12,328,203	369,035,751	0.2%
SINGAPORE DOLLAR	1,009,398	-	132,591,154	-	34	133,600,586	0.1%
NEW TAIWAN DOLLAR	1,269,435	-	347,606,796	-	2,553,834	351,430,065	0.2%
SOUTH AFRICAN RAND	331,217	-	46,793,376	34,516,806	(3,269,609)	78,371,790	0.1%
MISCELLANEOUS	3,187,063	83,193,054	270,129,701	-	(45,805,474)	310,704,344	0.2%
Total Foreign Currency Exposure	\$ 64,723,423	\$ 149,069,872	\$ 13,024,968,167	\$ 5,165,137,604	\$ 174,354,730	\$ 18,578,253,796	12.5%

RETIREMENT FUNDS

VFFRO FOREIGN CURRENCY EXPOSURE

Foreign Currency Denomination	Equity Securities	Percent of Total Investments
AUSTRALIAN DOLLAR	\$ 2,886,593	1.4%
BRAZILIAN REAL	827,349	0.4%
CANADIAN DOLLAR	4,544,676	2.2%
SWISS FRANC	3,428,330	1.6%
YUAN RENMINBI	816,179	0.4%
DANISH KRONE	939,828	0.4%
EURO CURRENCY	10,451,345	5.0%
POUND STERLING	5,682,876	2.7%
HONG KONG DOLLAR	5,115,451	2.4%
INDIAN RUPEE	2,293,403	1.1%
JAPANESE YEN	8,347,182	4.0%
SOUTH KOREAN WON	1,919,371	0.9%
SAUDI RIYAL	696,490	0.3%
SWEDISH KRONA	1,334,046	0.6%
NEW TAIWAN DOLLAR	2,505,929	1.2%
SOUTH AFRICAN RAND	595,259	0.3%
OTHER MISC	3,541,938	1.7%
Total Foreign Currency Exposure	\$ 55,926,245	26.6%



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 Retirement Funds as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Retirement Funds’ basic financial statements, and have issued our report thereon dated September 20, 2022.

REPORT ON 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.

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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 or significant deficiencies may exist that have not been identified.

REPORT ON COMPLIANCE AND OTHER MATTERS

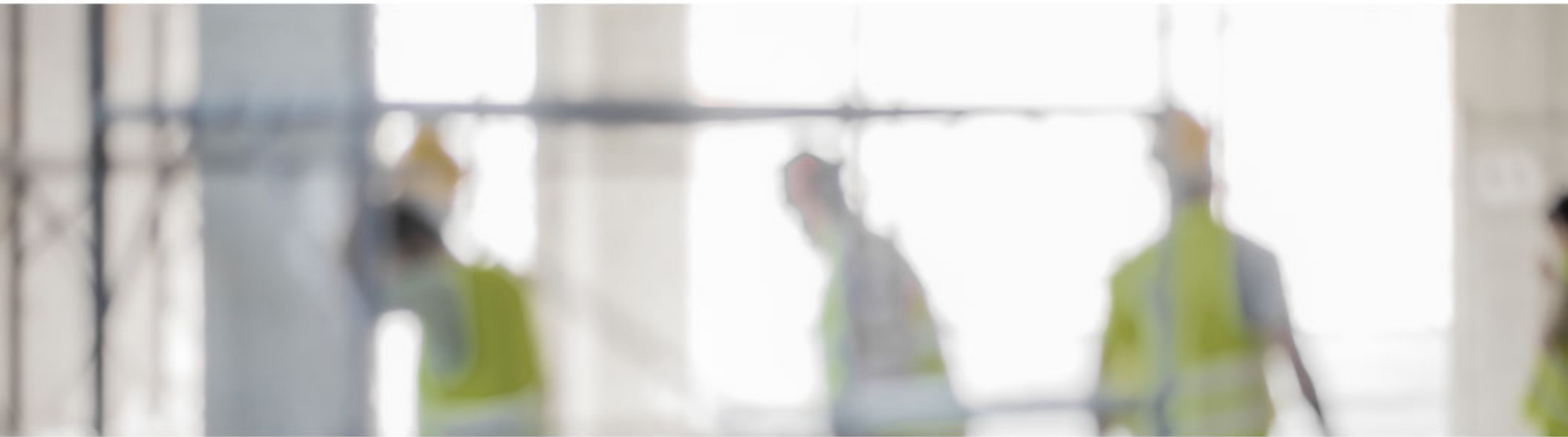
As part of obtaining reasonable assurance about whether the Retirement Funds' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and 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 entity'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 entity'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 20, 2022



LABOR AND INDUSTRIES' FUNDS



INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF THE WASHINGTON STATE INVESTMENT BOARD

OLYMPIA, WASHINGTON

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of the Labor and Industries' Funds (which are comprised of the Accident Fund, the Medical Aid Fund, the Pension Reserve 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, 2022, and the related statement of changes in fiduciary net investment position for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying 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, 2022, 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.

BASIS FOR OPINION

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Labor and Industries' Funds and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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RESPONSIBILITIES OF MANAGEMENT FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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 RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Labor and Industries' Funds' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

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 is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance

with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2022 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 grant agreements 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 20, 2022

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, 2022. 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, 2022. The following table compares the fiduciary net investment position of each major investment classification at June 30, 2022, with those at June 30, 2021. 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

Fiscal Year 2022 began with concerns around supply chain disruptions, rising inflation, and a peak in the rate of economic growth. Increased regulation of the Chinese technology sector and fears around the potential default of a large Chinese property developer hampered emerging market returns. In the wake of the pullback in the Chinese equity market, the Morgan Stanley Capital International (MSCI) Emerging Markets (EM) Investable Market Index (IMI) was down 7.4 percent, while the MSCI Developed Market World IMI returned (0.2) percent for the quarter. The U.S. Federal Reserve (Fed) announced their plan to slow the pace of its bond buying program, also known as tapering. Tapering is a controlled way to phase out quantitative easing while managing the continued economic recovery. The indication of tapering from the Fed in September caused an increase in the U.S. 10-year Treasury rate by 0.2 percent for the month to finish the quarter at 1.5 percent.

In the second quarter of Fiscal Year 2022, the emergence of the highly infectious Omicron variant caused an increase in equity market volatility. Markets rebounded quickly after knowledge that the new variant was not as potent as the previous Delta variant. Strong quarterly corporate earnings and potential for further growth in Fiscal Year 2022 outweighed the risk factors in the second quarter. The Fed voted to maintain the current federal funds target rate and announced plans to accelerate the tapering of asset purchases from \$15.0 billion to \$30.0 billion per month, beginning in January 2022. The MSCI Developed Market World IMI returned 7.1 percent for the quarter. Emerging market countries underperformed the developed markets in the second quarter. Global equity markets rallied to end the second quarter with strong positive returns for the third consecutive calendar year.

Global markets were faced with a myriad of concerns in the third quarter of the fiscal year. Russia's invasion of Ukraine caused a major global shock and the markets reacted, with equities declining and bond prices falling. Commodity prices continued to increase, which contributed to a further surge in inflation. Increased price pressure, coupled with the economic impact of the invasion, presented a challenge for global central banks to slow down inflation while

LABOR AND INDUSTRIES' FUNDS

supporting economic growth. The MSCI Developed Market World IMI returned (5.3) percent and the MSCI Emerging Markets IMI returned (6.7) percent in the third quarter. In a much-anticipated action, the Fed raised the target rate by 0.25 percent on March 16th and made it clear that further increases will follow. Interest rates increased dramatically, with the U.S. 10-year Treasury rate jumping 0.8 percent to end the quarter at 2.3 percent, the highest rate since April 2019 at 2.5 percent.

The close of the fiscal year marked the end to another very difficult quarter for global equity markets in a year already full of challenges. Developed market equities returned their worst performance for the fiscal year in over 50 years. The ongoing conflict in Ukraine, central banks tightening monetary policy, and rapidly rising inflation worldwide contributed to negative investor sentiment. Headline U.S. inflation reported in June continued to be elevated through year end at 8.6 percent, the highest it has been since 1981. In an attempt to reduce inflation without causing a recession, the Fed raised interest rates twice during the quarter. The Fed increased the target rate 0.50 percent in May and 0.75 percent in June to bring the target rate range to 1.5 to 1.75 percent. The rate hike in June was the first increase of this magnitude since November 1994. The Fed rate hikes caused U.S. interest rates to significantly increase in the last quarter, with the U.S. 10-year Treasury rate climbing 0.7 percent to end the fiscal year at 3.0 percent. The MSCI Developed Market World IMI returned (16.3) percent for the quarter, and (15.3) percent for the fiscal year. Emerging Markets slightly outperformed developed markets for the quarter. The MSCI Emerging Markets IMI returned (12.1) percent for the quarter, and (24.8) percent during the last one-year period. Credit spreads widened along with the selloff in global equities. Investment grade spreads widened 39 basis points in the quarter to 155 basis points, which was 75 basis points higher for the fiscal year. High yield spreads widened 244 basis points in the quarter to 569 basis points, which was 301 basis points higher for the fiscal year.

As shown in the following table, the fiduciary net investment position of the L&I Funds decreased by \$2,876.3 million during the fiscal year ended June 30, 2022. Net withdrawals from the L&I Funds during the year decreased fiduciary net investment position by \$296.7 million. Net investment losses decreased fiduciary net investment position by \$2,579.6 during the current fiscal year.

Net investment income decreased by 297.9 percent from the previous fiscal year, mainly due to increases in net realized and unrealized losses which increased by 463.2 percent from the previous year as the result of significant decreases in overall returns, which was the result of a heavy decline in market returns discussed previously. The current fiscal year return for the L&I Funds was (12.1) percent, compared to the prior year return of 6.4 percent.

Net withdrawals from the L&I Funds increased modestly by \$11.0 million from the prior fiscal year. This was a direct result of the increase in the state's annual average wage, which in turn increased the supplemental pension cost of living adjustment (COLA) by 10.1 percent. This was partially offset by premium rate reductions of 7.8 percent for the Medical Aid account and an increase in reported hours.

As required by RCW 51.44.080, the Washington State Department of L&I evaluates the assets and liabilities of the Pension Reserve Account at the end of each fiscal year. As a result of this evaluation, \$126.5 million was transferred from the Pension Reserve Fund to the Accident Fund in order to balance the Pension Reserve Accounts assets with its liabilities. This is reflected as an equity transfer in the accompanying financials. See the Department of L&I's Workers' Compensation Program Annual Comprehensive Financial Report for more information.

Investment related receivables and payables, which include investments purchased and sold pending settlement over year end, income receivables, and expenses payable, are reflected in the fiduciary net investment position for each asset class. These balances fluctuate from year to year based on invested

LABOR AND INDUSTRIES' FUNDS

balances or trading activity. Pending trade balances vary due to fluctuations in unsettled securities transactions each year. Trading volumes can vary substantially, based on the timing of additional cash flows, market movements, and rebalancing of asset classes within a portfolio. Accordingly, there is generally minimal correlation to invested balances and can vary substantially from year to year. Investment income receivables and investment expenses payable generally fluctuate within each asset class based on the invested balances each year.

	Summarized Change in Fiduciary Net Investment Position and Returns by Asset Class (in Millions)									
	Fiscal Year End June 30, 2022				Fiscal Year End June 30, 2021				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 (**)	\$ 17,548.7	\$ 3,829.2	\$ 10.7	\$ 21,388.6	\$ 17,011.8	\$ 3,347.6	\$ 11.6	\$ 20,371.0	\$ 1,017.6	5.0%
Investment Income:										
Interest, Dividends, and Other Investment Income	465.4	0.7	0.1	466.2	473.6	0.8	-	474.4	(8.2)	-1.7%
Realized and Unrealized Gains (Losses)	(2,448.6)	(588.2)	(1.8)	(3,038.6)	(422.5)	1,258.9	0.3	836.7	(3,875.3)	-463.2%
Less: Investment Expenses	(5.1)	(1.7)	(0.4)	(7.2)	(5.4)	(1.7)	(0.7)	(7.8)	(0.6)	-7.7%
Net Investment Income (Loss)	(1,988.3)	(589.2)	(2.1)	(2,579.6)	45.7	1,258.0	(0.4)	1,303.3	(3,882.9)	-297.9%
Net Contributions (Withdrawals)	(297.2)	0.5	-	(296.7)	(286.3)	0.6	-	(285.7)	(11.0)	3.9%
Transfers to Other Asset Classes	141.7	(171.7)	30.0	-	777.5	(777.0)	(0.5)	-	-	N/A
Ending Fiduciary Net Investment Position (**)	\$ 15,404.9	\$ 3,068.8	\$ 38.6	\$ 18,512.3	\$ 17,548.7	\$ 3,829.2	\$ 10.7	\$ 21,388.6	\$ (2,876.3)	-13.4%
Increase (Decrease) in Fiduciary Net Investment Position	\$ (2,143.8)	\$ (760.4)	\$ 27.9	\$ (2,876.3)						
Percent Change in Fiduciary Net Investment Position	-12.2%	-19.9%	260.7%	-13.4%						
One Year Time Weighted Return - June 30, 2022	-11.2%	-16.3%	-7.8%	-12.1%						
One Year Time Weighted Return - June 30, 2021	0.4%	41.2%	-2.6%	6.4%						

(*) 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 decreased by \$2,143.8 million. Interest income net of expenses of \$460.3 million was reinvested in debt securities during the current fiscal year. Net realized and unrealized losses decreased balances in this asset class by \$2,448.6 million. To maintain strategic asset allocation targets, \$171.7 million in equity securities were sold and the proceeds were reinvested in debt securities. During the fiscal year, \$30 million in debt securities were sold and the proceeds were transferred to fund real estate capital calls and expenses. The fiduciary net investment position and performance of debt securities included \$280.5 million of cash balances used for trading purposes.

Despite the rising interest rate environment, interest income on fixed income securities decreased modestly by \$8.2 million from the previous fiscal year. Interest rate hikes began late in the fiscal year, leaving minimal impact on interest income for the fiscal year. The average coupon rate at June 30, 2022, remained unchanged from the previous year, ranging from 2.7 to 3.3 percent for the Accident Fund, Medical Aid Fund, and Pension Reserve Fund.

During the current fiscal year, interest rates rose substantially, causing bond prices to decrease, which negatively impacted overall bond market returns. Credit spreads widened substantially during the current fiscal year, which further contributed to negative bond market returns. The combination of rising interest rates and the widening credit spreads caused the bond market returns to be significantly lower than the previous year.

Performance for the L&I fixed income portfolios was (11.2) percent for the fiscal year ended June 30, 2022, which outperformed their Comparable Market Indices (CMI) across each L&I Fund. The CMI benchmark returns for each individual fund ranged from (10.5) to (15.6) percent. The shorter maturity profile in comparison to the CMI, coupled with security selection and asset allocation between industries and sectors, contributed to the portfolio's outperformance. The negative return was the result of a rising interest rate environment and credit spreads widening, 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 increased realized and unrealized losses by \$2,026.1 million year over year.

- **Equity securities** fiduciary net investment position decreased by \$760.4 million from the prior fiscal year. Net realized and unrealized losses decreased the fiduciary net investment position of equity securities by \$588.2 million. The overall investment returns for equity securities in the current fiscal year was (16.3) percent, which was a significant decrease from the prior fiscal year return of 41.2 percent. The substantial decrease in equity returns caused an increase in net realized and unrealized losses over the previous fiscal year by \$1,847.1 million. The equity portfolio is passively managed and is structured to closely track the performance of its global benchmark, MSCI All Country World Investable Market Index (MSCI ACWI IMI), which also returned (16.3) percent.

The first half of the fiscal year began on a positive note, with the global equity benchmark, MSCI ACWI IMI, a broad barometer of overall equity performance, returning 5.0 percent in the first six months of the fiscal year. However, in the second half of the year, the market environment changed dramatically, and the benchmark experienced two consecutive quarters of negative returns, declining greater than 15 percent in the final quarter of fiscal year 2022 alone. A confluence of events brought about the turbulent markets during this period, including geopolitical factors, a shift to tighter monetary policy due to higher inflation and a continuation of the COVID global pandemic.

- **Alternative Assets** fiduciary net investment position increased by \$27.9 million in the current fiscal year, mainly from additional capital invested. The L&I real estate program remains in its early stages and has investments in European and U.S. residential properties. The overall investment return for alternative assets in the current fiscal year was (7.8) percent, a decline from the prior fiscal year return of (2.6) 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 and negative returns are expected. Over time the negative returns are expected to reverse as the size of the portfolio grows.

LABOR AND INDUSTRIES' FUNDS

LABOR AND INDUSTRIES' FUNDS STATEMENT OF FIDUCIARY NET INVESTMENT POSITION JUNE 30, 2022

SEE NOTES TO FINANCIAL STATEMENTS

	Accident Fund	Medical Aid Fund	Pension Reserve Fund	Supplemental Pension Fund	Total	Percent of Total
ASSETS						
Investments						
CASH AND CASH EQUIVALENTS	\$ 80,391,040	\$ 117,840,813	\$ 36,164,710	\$ 46,129,574	\$ 280,526,137	1.6%
DEBT SECURITIES						
Mortgage and Other Asset Backed Securities	264,283,683	232,878,621	214,779,964	-	711,942,268	
Corporate Bonds	3,865,584,456	3,419,029,663	3,153,552,218	11,598,630	10,449,764,967	
U.S. Government and Agency Securities	991,497,532	834,753,587	668,899,485	23,623,633	2,518,774,237	
Foreign Government and Agency Securities	498,350,510	543,192,680	292,242,140	4,884,210	1,338,669,540	
Total Debt Securities	5,619,716,181	5,029,854,551	4,329,473,807	40,106,473	15,019,151,012	81.6%
EQUITY SECURITIES						
Commingled Investment Trusts	1,135,376,794	1,457,966,500	475,707,253	-	3,069,050,547	
Total Equity Securities	1,135,376,794	1,457,966,500	475,707,253	-	3,069,050,547	16.8%
ALTERNATIVE INVESTMENTS						
Real Estate	14,486,459	13,545,122	10,529,214	-	38,560,795	
Total Alternative Investments	14,486,459	13,545,122	10,529,214	-	38,560,795	Trace
Total Investments	6,849,970,474	6,619,206,986	4,851,874,984	86,236,047	18,407,288,491	100.0%
Investment Earnings Receivable	42,169,997	35,308,952	37,705,754	191,327	115,376,030	
Total Assets	6,892,140,471	6,654,515,938	4,889,580,738	86,427,374	18,522,664,521	
LIABILITIES						
Investment Accounts Payable	5,108,847	5,155,717	54,534	12,668	10,331,766	
Total Liabilities	5,108,847	5,155,717	54,534	12,668	10,331,766	
FIDUCIARY NET INVESTMENT POSITION	\$ 6,887,031,624	\$ 6,649,360,221	\$ 4,889,526,204	\$ 86,414,706	\$ 18,512,332,755	

LABOR AND INDUSTRIES' FUNDS

LABOR AND INDUSTRIES' FUNDS STATEMENT OF CHANGES IN FIDUCIARY NET INVESTMENT POSITION YEAR ENDED JUNE 30, 2022

SEE NOTES TO FINANCIAL STATEMENTS

	Accident Fund	Medical Aid Fund	Pension Reserve Fund	Supplemental Pension Fund	Total
Net Investment Income					
Investment Income					
Interest, Dividends and Other Investment Income	\$ 167,034,810	\$ 143,307,981	\$ 154,875,022	\$ 994,498	\$ 466,212,311
Net Realized Capital Gains (Losses)	41,834,987	12,630,917	86,861,882	341,558	141,669,344
Unrealized Gains (Losses)	(1,128,240,763)	(982,810,215)	(1,065,915,251)	(3,307,807)	(3,180,274,036)
Less:					
Investment Expenses	(1,487,873)	(1,513,931)	(947,311)	(133,418)	(4,082,533)
WSIB Operating Expenses	(1,139,886)	(1,102,057)	(863,515)	(18,669)	(3,124,127)
Net Investment Income (Loss)	(921,998,725)	(829,487,305)	(825,989,173)	(2,123,838)	(2,579,599,041)
Equity Transfer	126,482,000	-	(126,482,000)	-	-
Net Amount Contributed (Withdrawn)	16,374,886	(33,833,943)	(245,566,563)	(33,658,331)	(296,683,951)
Increase (Decrease) in Fiduciary Net Investment Position	(779,141,839)	(863,321,248)	(1,198,037,736)	(35,782,169)	(2,876,282,992)
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
FIDUCIARY NET INVESTMENT POSITION, JUNE 30, 2022	\$ 6,887,031,624	\$ 6,649,360,221	\$ 4,889,526,204	\$ 86,414,706	\$ 18,512,332,755

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, 2022, 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, 2022, 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, 2022. 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, 2022, 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, 2022.

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, 2022, consisted of \$1.2 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 SSC 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, 2022.

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 2022, 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 2022, 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, 2022, the only derivative instrument securities held directly by the L&I Funds were collateralized mortgage obligations of \$261.3 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.

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

LABOR AND INDUSTRIES' FUNDS

Investment Accounting and Administration Unit of the WSIB, which regularly monitors fair value measurements. Fair value measurements are prepared and reviewed monthly. Any third-party valuations are reviewed for reasonableness and compliance with relevant accounting standards.

The 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.

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, 2022:

	Fair Value Measurements Using:			
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
INVESTMENTS				
DEBT SECURITIES				
Mortgage and Other Asset Backed Securities	\$ 711,942,268	\$ -	\$ 711,942,268	\$ -
Corporate Bonds	10,449,764,967	-	10,449,764,967	-
U.S. and Foreign Government and Agency Securities	3,857,443,777	-	3,857,443,777	-
Total Debt Securities	15,019,151,012	-	15,019,151,012	-
Total Investments By Fair Value Level	\$ 15,019,151,012	\$ -	\$ 15,019,151,012	\$ -
INVESTMENTS MEASURED AT NET ASSET VALUE				
Commingled Equity Investment Trusts	3,069,050,547			
Real Estate	38,560,795			
Total Investments Measured at Fair Value	\$ 18,126,762,354			

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.

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 \$38.6 million (0.2 percent of total investments) as of June 30, 2022. 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, 2022.

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 three real estate investments. 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 evaluated 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.

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).

LABOR AND INDUSTRIES' FUNDS

The total market value of below investment grade credit bonds (as defined by Bloomberg U.S. Global Family of Fixed Income Indices) shall not exceed 5 percent of the total market value of the funds.

Below investment grade mortgage-backed, asset-backed, or commercial mortgage-backed securities may not be purchased. If investment grade mortgage-backed, asset-backed, or commercial mortgage-backed securities are downgraded to below investment grade, the securities may continue to be held, but their total market value shall not exceed 5 percent of the total market value of the funds.

If liquidity in the public markets is impaired, the fixed income sector ranges and duration limits described in this policy may be suspended to allow for greater liquidity flexibility. If suspended, the ranges will be reinstated as soon as feasible upon return of liquidity.

No more than 15 percent of the long-term target allocation for real estate will be invested in the equity position for a single property at the time of acquisition.

ASSET ALLOCATION

Asset allocation will be reviewed every four years, or sooner, if there are significant changes in funding levels or the liability durations of the L&I Funds. Market conditions, funding status, and liability assumptions are dynamic. Therefore, WSIB staff meet quarterly with L&I staff to review the investment portfolios.

The Board has delegated authority to the Chief Executive Officer 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. Given the liquidity constraints in the real estate portfolio, the strategic asset allocation is expected to reach their targets by the end of calendar year 2025. 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 4 percent in all funds, excluding the Supplemental Pension Fund, which has no allocation to this asset class.

	Fixed Income	Equity	Real Estate
Accident Fund	81%	15%	4%
Pension Reserve Fund	86%	10%	4%
Medical Aid Fund	76%	20%	4%
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 net with U.S. Gross. The global equity portfolio will be passively managed in commingled index funds. The commingled fund managers may use futures for hedging or establishing a long position.

FIXED INCOME

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

The duration targets will be reviewed every three years, or sooner, if there are significant changes in the funding levels or the liability durations.

Accident Fund (608): within plus or minus 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.

PERMISSIBLE FIXED INCOME INVESTMENTS

- U.S. Treasuries and Government Agencies.
- Credit Bonds.
- Investment Grade Mortgage-Backed Securities, as defined by Bloomberg Global Family of fixed income indices.
- Investment Grade Asset Backed Securities, as defined by Bloomberg Global Family of fixed income indices.
- Investment Grade Commercial Mortgage-Backed Securities, as defined by Bloomberg 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.

LABOR AND INDUSTRIES' FUNDS

Total market value of below investment grade credit bonds, as defined by Bloomberg 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 characteristics 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 long-term target allocation for real estate will be invested in the equity position for a single property at the time of acquisition.

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	\$ 711,942,268	\$ 8,570,404	\$ 574,079,940	\$ 129,291,924	\$ -	4.1	Aaa
Corporate Bonds	10,449,764,967	521,209,794	3,835,289,255	3,003,391,177	3,089,874,741	7.3	Schedule 2
U.S. Government and Agency Securities	2,518,774,237	122,426,758	1,207,057,146	467,385,645	721,904,688	7.3	Aaa
Foreign Government and Agencies	1,338,669,540	151,660,480	580,509,640	413,848,410	192,651,010	5.7	Schedule 2
	15,019,151,012	\$ 803,867,436	\$ 6,196,935,981	\$ 4,013,917,156	\$ 4,004,430,439	7.0	
Investments Not Required to be Categorized							
Commingled Investment Trusts	3,069,050,547						
Cash and Cash Equivalents	280,526,137						
Real Estate	38,560,795						
Total Investments Not Categorized	3,388,137,479						
Total L&I Funds Investments	\$ 18,407,288,491						

* Duration excludes cash and cash equivalents

SCHEDULE 2

ADDITIONAL CREDIT RATINGS DISCLOSURE

Moody's Equivalent Credit Rating	Corporate Bonds	Foreign Government and Agency Securities
Aaa	\$ 475,729,900	\$ 161,585,760
Aa1	196,556,700	306,628,900
Aa2	143,790,000	102,054,050
Aa3	887,171,063	147,467,140
A1	1,341,324,331	369,489,890
A2	1,855,055,631	78,211,270
A3	1,787,424,734	-
Baa1	1,748,013,086	-
Baa2	1,383,373,143	137,935,880
Baa3	426,804,980	8,181,500
Ba1 or Lower	204,521,399	27,115,150
Total	\$ 10,449,764,967	\$ 1,338,669,540

LABOR AND INDUSTRIES' FUNDS

SCHEDULE 3

FOREIGN CURRENCY EXPOSURE

Foreign Currency Denomination	Equity Securities	Percent of Total Investments
AUSTRALIAN DOLLAR	\$ 62,725,871	0.3%
BRAZILIAN REAL	17,978,353	0.1%
CANADIAN DOLLAR	98,756,149	0.5%
SWISS FRANC	74,497,863	0.4%
YUAN RENMINBI	17,735,631	0.1%
DANISH KRONE	20,422,527	0.1%
EURO CURRENCY	227,108,536	1.2%
POUND STERLING	123,489,328	0.7%
HONG KONG DOLLAR	111,159,125	0.6%
INDIAN RUPEE	49,835,809	0.2%
JAPANESE YEN	181,384,885	1.0%
SOUTH KOREAN WON	41,708,083	0.2%
SAUDI RIYAL	15,134,789	0.1%
SWEDISH KRONA	28,988,911	0.2%
SINGAPORE DOLLAR	10,758,222	0.1%
NEW TAIWAN DOLLAR	54,454,029	0.3%
SOUTH AFRICAN RAND	12,935,020	0.1%
OTHER (MISC)	66,208,360	0.4%
Total Foreign Currency Exposure	\$ 1,215,281,491	6.6%



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 Labor and Industries' Funds as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Labor and Industries' Funds' basic financial statements, and have issued our report thereon dated September 20, 2022.

REPORT ON 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.

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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 or significant deficiencies may exist that have not been identified.

REPORT ON COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Labor and Industries' Funds' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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

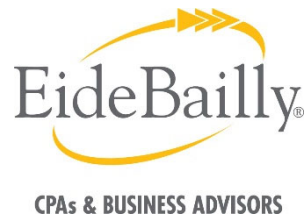
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity'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 20, 2022



PERMANENT FUNDS



INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF THE WASHINGTON STATE INVESTMENT BOARD

OLYMPIA, WASHINGTON

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the 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, 2022, and the related statement of changes in fiduciary net investment position for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the fiduciary net investment position of the Permanent Funds as of June 30, 2022, 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.

BASIS FOR OPINION

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Permanent Funds and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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RESPONSIBILITIES OF MANAGEMENT FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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 RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Permanent Funds' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

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 is the responsibility of management and, 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

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we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2022 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 grant agreements 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.

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

Boise, Idaho
September 20, 2022

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, 2022. 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, 2022. The following table compares the fiduciary net investment position of each major investment classification at June 30, 2022, with those at June 30, 2021. 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

Fiscal Year 2022 began with concerns around supply chain disruptions, rising inflation, and a peak in the rate of economic growth. Increased regulation of the Chinese technology sector and fears around the potential default of a large Chinese property developer hampered emerging market returns. In the wake of the pullback in the Chinese equity market, the Morgan Stanley Capital International (MSCI) Emerging Markets (EM) Investable Market Index (IMI) was down 7.4 percent, while the MSCI Developed Market World IMI returned (0.2) percent for the quarter. The U.S. Federal Reserve (Fed) announced their plan to slow the pace of its bond buying program, also known as tapering. Tapering is a controlled way to phase out quantitative easing while managing the continued economic recovery. The indication of tapering from the Fed in September caused an increase in the U.S. 10-year Treasury rate by 0.2 percent for the month to finish the quarter at 1.5 percent.

In the second quarter of Fiscal Year 2022, the emergence of the highly infectious Omicron variant caused an increase in equity market volatility. Markets rebounded quickly after knowledge that the new variant was not as potent as the previous Delta variant. Strong quarterly corporate earnings and potential for further growth in Fiscal Year 2022 outweighed the risk factors in the second quarter. The Fed voted to maintain the current federal funds target rate and announced plans to accelerate the tapering of asset purchases from \$15.0 billion to \$30.0 billion per month, beginning in January 2022. The MSCI Developed Market World IMI returned 7.1 percent for the quarter. Emerging market countries underperformed the developed markets in the second quarter. Global equity markets rallied to end the second quarter with strong positive returns for the third consecutive calendar year.

Global markets were faced with a myriad of concerns in the third quarter of the fiscal year. Russia's invasion of Ukraine caused a major global shock and the markets reacted, with equities declining and bond prices falling. Commodity prices continued to increase, which contributed to a further surge in inflation. Increased price pressure, coupled with the economic impact of the invasion, presented a challenge for global central banks to slow down inflation while supporting economic growth. The MSCI Developed Market World IMI returned (5.3) percent and the MSCI Emerging Markets IMI returned (6.7) percent in the

third quarter. In a much-anticipated action, the Fed raised the target rate by 0.25 percent on March 16th and made it clear that further increases will follow. Interest rates increased dramatically, with the U.S. 10-year Treasury rate jumping 0.8 percent to end the quarter at 2.3 percent, the highest rate since April 2019 at 2.5 percent.

The close of the fiscal year marked the end to another very difficult quarter for global equity markets in a year already full of challenges. Developed market equities returned their worst performance for the fiscal year in over 50 years. The ongoing conflict in Ukraine, central banks tightening monetary policy, and rapidly rising inflation worldwide contributed to negative investor sentiment. Headline U.S. inflation reported in June continued to be elevated through year end at 8.6 percent, the highest it has been since 1981. In an attempt to reduce inflation without causing a recession, the Fed raised interest rates twice during the quarter. The Fed increased the target rate 0.50 percent in May and 0.75 percent in June to bring the target rate range to 1.5 to 1.75 percent. The rate hike in June was the first increase of this magnitude since November 1994. The Fed rate hikes caused U.S. interest rates to significantly increase in the last quarter, with the U.S. 10-year Treasury rate climbing 0.7 percent to end the fiscal year at 3.0 percent. The MSCI Developed Market World IMI returned (16.3) percent for the quarter, and (15.3) percent for the fiscal year. Emerging Markets slightly outperformed developed markets for the quarter. The MSCI Emerging Markets IMI returned (12.1) percent for the quarter, and (24.8) percent during the last one-year period. Credit spreads widened along with the selloff in global equities. Investment grade spreads widened 39 basis points in the quarter to 155 basis points, which was 75 basis points higher for the fiscal year. High yield spreads widened 244 basis points in the quarter to 569 basis points, which was 301 basis points higher for the fiscal year.

As shown in the following table, the fiduciary net investment position of the Permanent Funds decreased by \$163.5 million during the fiscal year ended June 30, 2022. Net contributions from the Department of Natural Resources (DNR) on behalf of the Permanent Funds during the year increased fiduciary net investment position by \$21.6 million and were mainly invested in fixed income securities. Net investment income decreased the fiduciary net investment position by \$153.8 million and was due to a 266.6 percent increase in realized and unrealized losses from the previous fiscal year due to significant declines in market returns. Distributable investment income (interest, dividends, and other investment income net of investment expenses) of \$31.3 million was distributed to the state colleges and universities pursuant to state laws, which decreased the fiduciary net investment position. Interest, dividends, and other investment income in the accompanying financial statements include capital gains and losses resulting from sales of the underlying holdings of the debt and equity funds, which are invested in commingled investment funds managed by the WSIB.

Net investment income decreased by \$312.1 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 decreased over the prior fiscal year and is derived from the distributable net investment income (DNII) within each commingled investment fund. DNII includes income generated from the underlying holdings within each fund and includes interest, dividends, net realized gains or losses, and investment expenses. The components of this decrease in DNII include the following:
 - DNII in the Commingled Monthly Equity Fund (CMEF) decreased by \$11.8 million over the previous fiscal year. Negative returns in the CMEF significantly reduced the market value of equity securities in the current fiscal year. Consequently, although dividend yields increased within the CMEF by 35 basis points in the current fiscal year, dividends received within the portfolio declined. Capital gains distributed in the current fiscal year significantly declined over the previous year contributing to the decline. To maintain strategic asset allocation targets, equity securities were sold and capital gains of \$14.1 million were included in DNII in the prior year as compared to the current year amount of \$0.4 million.

PERMANENT FUNDS

- DNII in the Commingled Monthly Bond Fund (CMBF) decreased by \$4.1 million over the previous fiscal year. The average coupon rate in the CMBF decreased this fiscal year from 2.6 to 2.5 percent driving a slight decline in interest earnings within the fund. In addition, invested balances in the debt portfolio decreased by 9.1 percent contributing to the decline of DNII.
- The net realized and unrealized losses in equity securities increased by \$228.2 million as the result of significant decreases in equity returns during the current fiscal year. The equity portfolio, which represents 39.6 percent of invested balances at year end, returned (14.6) percent in the current fiscal year, as compared to the prior fiscal year return of 40.6 percent.
- The net realized and unrealized losses in debt securities increased by \$68.0 million as the result of significant decreases in debt returns during the current fiscal year. The fixed income portfolio, which represents 60.3 percent of invested balances at year end, returned (9.8) percent in the current fiscal year, as compared to the prior fiscal year return of (0.7) percent.

Net contributions from DNR increased by \$8.5 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 decreased by \$13.4 million and are directly correlated to the DNII of each commingled fund as reported in the financial statements DNII includes cash basis interest, dividends, and net realized gains. Investment expenses and realized losses reduce the DNII. There are timing issues between the income reported and the income distributed to the beneficiaries for various accounting related accruals. The large decrease in distributions compared to the prior year was the result of decreased interest, dividend, and net capital gains as discussed earlier.

PERMANENT FUNDS

	Summarized Change in Fiduciary Net Investment Position and Returns by Asset Class									
	Fiscal Year End June 30, 2022				Fiscal Year End June 30, 2021				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 (*)	\$ 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%
Investment Income:										
Interest, Dividends, and Other Investment Income	2,083	18,277,877	13,243,076	31,523,036	1,581	22,330,693	25,084,568	47,416,842	(15,893,806)	-33.5%
Realized and Unrealized Gains (Losses)	-	(93,874,235)	(91,234,152)	(185,108,387)	-	(25,866,600)	137,007,514	111,140,914	(296,249,301)	-266.6%
Less: Investment Expenses	(1,782)	(116,530)	(80,322)	(198,634)	(1,842)	(136,396)	(80,594)	(218,832)	(20,198)	-9.2%
Net Investment Income (Loss)	301	(75,712,888)	(78,071,398)	(153,783,985)	(261)	(3,672,303)	162,011,488	158,338,924	(312,122,909)	-197.1%
Contributions	21,601,000	-	-	21,601,000	13,055,000	-	-	13,055,000	8,546,000	65.5%
Withdrawals and Distributions	(7,283)	(18,157,766)	(13,164,916)	(31,329,965)	(8,393)	(22,178,003)	(22,583,573)	(44,769,969)	(13,440,004)	-30.0%
Transfers Between Asset Classes	(25,204,549)	25,201,997	2,552	-	(8,621,454)	(16,795,963)	25,417,417	-	-	N/A
Ending Fiduciary Net Investment Position (*)	\$ 1,277,497	\$ 689,152,351	\$ 452,232,974	\$ 1,142,662,822	\$ 4,888,028	\$ 757,821,008	\$ 543,466,736	\$ 1,306,175,772	\$(163,512,950)	-12.5%
Increase (Decrease) in Fiduciary Net Investment Position	\$ (3,610,531)	\$ (68,668,657)	\$ (91,233,762)	\$ (163,512,950)						
Percent Change in Fiduciary Net Investment Position	-73.9%	-9.1%	-16.8%	-12.5%						
One Year Time Weighted Return - June 30, 2022	0.2%	-9.8%	-14.6%	-11.8%						
One Year Time Weighted Return - June 30, 2021	0.1%	-0.7%	40.6%	13.5%						

(*) 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 decreased by \$3.6 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, 2022, increased over the prior fiscal year to 0.2 percent, resulting in an increase in interest income over the prior year. Short-term rates moved considerably higher over the fiscal year as a result of Fed actions. The Fed increased the target range for federal funds by 150 basis points during the fiscal year which had a positive 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 \$68.7 million. Net realized and unrealized losses for the fiscal year were \$93.9 million, which decreased fixed income invested balances. Contributions received were initially invested in cash and subsequently transferred and reinvested in debt securities. In the current fiscal year, \$25.2 million of contributions received from DNR were invested in the fixed income portfolio offsetting the declines for market related losses. Interest, and other investment income net of investment expenses of \$18.2 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 (9.8) percent in the current fiscal year, which is significantly lower than the previous year return of (0.7) percent. During the current fiscal year, interest rates rose

substantially, causing bond prices to decrease, which negatively impacted overall bond market returns. Credit spreads widened substantially during the current fiscal year, which further contributed to negative bond market returns. The combination of rising interest rates and widening credit spreads caused the bond market returns to be significantly lower than the previous year. The current year return of the CMBF outperformed its benchmark, the Bloomberg U.S. Aggregate Bond Index, of (10.3) percent. The outperformance was due to a shorter maturity profile of the portfolio versus its benchmark, leaving the portfolio less exposed to changes in interest rates.

- **Equity securities** fiduciary net investment position decreased by \$91.2 million. Dividend and other investment income net of investment expenses of \$13.2 million was earned by the CMEF and subsequently distributed to the beneficiary funds. Realized and unrealized losses decreased the portfolio by \$91.2 million as the result of heavy declines in investment returns within the portfolio. The overall investment return for the CMEF in the current fiscal year was (14.6) percent, a significant decline from the prior fiscal year return of 40.6 percent.

The CMEF 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 2.75 percent. At the same time, the strategy attempts to minimize realized capital gains by limiting portfolio turnover. The total portfolio returned (14.6) percent during the fiscal year, which outperformed its global developed-markets benchmark return, the MSCI World Investable Market Index (MSCI World IMI), of (15.3) percent. The stronger performance of higher dividend yielding stocks modestly added to returns in the fund relative to the benchmark.

The first half of the fiscal year began on a positive note with the global equity benchmark, the MSCI All Country World Investable Market Index (MSCI ACWI IMI), a broad barometer of overall equity performance, returning 5.0 percent in the first half of the fiscal year. However, in the second half of the year, the market environment changed dramatically, and the benchmark experienced two consecutive quarters of negative returns, declining greater than 15.0 percent in the final quarter of Fiscal Year 2022 alone. A confluence of events brought about the turbulent markets during this period, including geopolitical factors, a shift to tighter monetary policy due to higher inflation and a continuation of the COVID global pandemic.

PERMANENT FUNDS

PERMANENT FUNDS STATEMENT OF FIDUCIARY NET INVESTMENT POSITION JUNE 30, 2022

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	\$ 19,259	\$ 431,794	\$ 326,729	\$ 47,809	\$ 414,799	\$ 36,967	\$ 1,277,357	0.1%
Commingled Monthly Bond Fund	306,747	159,114,621	181,539,583	142,097,852	182,336,464	23,756,544	689,151,811	60.3%
Commingled Monthly Equity Fund	-	104,753,983	120,775,480	92,928,747	117,830,776	15,943,595	452,232,581	39.6%
Total Investments	326,006	264,300,398	302,641,792	235,074,408	300,582,039	39,737,106	1,142,661,749	100.0%
Investment Earnings Receivable	670	697,907	800,541	621,033	792,140	105,238	3,017,529	
Total Assets	326,676	264,998,305	303,442,333	235,695,441	301,374,179	39,842,344	1,145,679,278	
LIABILITIES								
Distributions and Other Payables	664	697,643	800,237	620,833	791,881	105,198	3,016,456	
FIDUCIARY NET INVESTMENT POSITION	\$ 326,012	\$ 264,300,662	\$ 302,642,096	\$ 235,074,608	\$ 300,582,298	\$ 39,737,146	\$ 1,142,662,822	

PERMANENT FUNDS

PERMANENT FUNDS STATEMENT OF CHANGES IN FIDUCIARY NET INVESTMENT POSITION YEAR ENDED JUNE 30, 2022

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	\$ 8,328	\$ 7,299,587	\$ 8,364,637	\$ 6,494,718	\$ 8,254,105	\$ 1,101,661	\$ 31,523,036
Net Realized Capital Gains (Losses)	26	-	-	-	-	-	26
Unrealized Gains (Losses)	(42,085)	(42,810,577)	(49,074,753)	(38,175,126)	(48,540,592)	(6,465,280)	(185,108,413)
Less:							
Investment Expenses	(40)	(1,466)	(1,596)	(1,227)	(1,859)	(217)	(6,405)
WSIB Operating Expenses	(52)	(44,512)	(51,036)	(39,616)	(50,287)	(6,726)	(192,229)
Net Investment Income (Loss)	(33,823)	(35,556,968)	(40,762,748)	(31,721,251)	(40,338,633)	(5,370,562)	(153,783,985)
Other Changes in Fiduciary Net Investment Position							
Contributions	-	4,441,000	4,015,000	3,854,000	8,863,000	428,000	21,601,000
Withdrawals and Distributions	(14,082)	(7,253,510)	(8,311,921)	(6,453,885)	(8,201,860)	(1,094,707)	(31,329,965)
Increase (Decrease) in Fiduciary Net Investment Position	(47,905)	(38,369,478)	(45,059,669)	(34,321,136)	(39,677,493)	(6,037,269)	(163,512,950)
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
FIDUCIARY NET INVESTMENT POSITION, JUNE 30, 2022	\$ 326,012	\$ 264,300,662	\$ 302,642,096	\$ 235,074,608	\$ 300,582,298	\$ 39,737,146	\$ 1,142,662,822

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. At statehood, land was granted to the state of Washington by the federal government to establish these permanent funds. The Permanent Funds consist of proceeds from sales of these lands and the 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 financially needy students with close social and cultural ties to an American Indian community 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 the CMBF. The equity investments held by the Permanent Funds are commingled into the CMEF. The Permanent Funds hold shares of the CMBF and the CMEF. The CMBF and CMEF are managed in compliance with the permissible investments and portfolio constraints as detailed in 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 2022 was \$132,974. Securities lending expenses during the fiscal year totaled \$29,746.

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, 2022, 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 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, 2022. 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, 2022.

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, 2022, consisted of \$142.8 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 (SSC) to act as agent for the WSIB in securities lending transactions. As SSC 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, 2022, 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, 2022, cash collateral received totaling \$8.2 million was reported as a securities lending obligation, and the fair value of the reinvested cash collateral totaling \$8.2 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, 2022.

In Millions:	Cash Collateral	Non-Cash Collateral	Total
Repurchase Agreements	\$ 4.7	\$ -	\$ 4.7
Yankee CD	1.2	-	1.2
Commercial Paper	1.7	-	1.7
U.S. Treasuries	-	4.2	4.2
Cash Equivalents and other	0.6	-	0.6
Total Collateral Held	\$ 8.2	\$ 4.2	\$ 12.4

During Fiscal Year 2022, securities lending transactions could be terminated on demand by either the Permanent Funds or the borrower. As of June 30, 2022, the collateral held had an average duration of 3.57 days and an average weighted final maturity of 55.68 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 2022, 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 2022, 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. Market risks arising from derivative instrument transactions is mitigated 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, 2022, the only derivative instrument securities were collateralized mortgage obligations of \$16.0 million, which were held indirectly by the Permanent Funds' through the CMBF.

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, 2022:

	Fair Value
INVESTMENTS - PERMANENT FUNDS	
INVESTMENTS MEASURED AT NET ASSET VALUE	
Commingled Monthly Bond Fund	\$ 689,151,811
Commingled Monthly Equity Fund	452,232,581
Total Investments at Net Asset Value	<u>1,141,384,392</u>
Total Investments Measured at Fair Value	<u>\$ 1,141,384,392</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 ACWI IMI and the Bloomberg U.S. Aggregate Bond Index, respectively. With the exception of the AIS Endowment Fund, 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 Endowment Fund 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 benchmarks 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.
- Global public equity.
- Investment Grade fixed income.

PERMANENT FUNDS

Investment grade is defined using the method employed by the Bloomberg 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.

ASSET ALLOCATION AND BENCHMARKING

The asset allocation policy targets for the Agricultural Permanent Fund, Normal School Permanent Fund, Permanent Common School Fund, Scientific Permanent Fund, and State University Permanent Fund are detailed in the chart to the right. The benchmark for these funds is a combination of the Bloomberg 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 AIS Endowment Fund has an asset allocation policy of 100 percent unrestricted fixed income securities. The benchmark for the fund is the Bloomberg 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	\$ 88,511,008	\$ 5,015,601	\$ 68,479,793	\$ 15,015,614	\$ -	4.3	Aaa
Corporate Bonds	296,458,848	-	115,449,700	78,713,350	102,295,798	7.9	Schedule 2
U.S. Government and Agency Securities	252,992,070	108,890,039	77,425,781	19,896,875	46,779,375	4.3	Aaa
Foreign Government and Agency Securities	37,234,800	-	29,105,800	4,447,800	3,681,200	5.1	Schedule 2
Total Debt Securities	675,196,726	\$ 113,905,640	\$ 290,461,074	\$ 118,073,639	\$ 152,756,373	5.95*	
Investments Not Required to be Categorized							
Cash and Cash Equivalents	11,886,246						
Investment Earnings Receivable	3,534,305						
Total Commingled Bond Fund Assets	690,617,277						
Distributions and other payables	(1,465,466)						
CMBF Fiduciary Net Investment Position - June 30, 2022	\$ 689,151,811						

* Duration excludes cash and cash equivalents

SCHEDULE 2

COMMINGLED MONTHLY BOND FUND CREDIT RATING (MOODY'S)

Moody's Credit Rating	Corporate Bonds	Foreign Government and Agency Securities
Aaa	\$ 5,141,900	\$ -
Aa1	3,695,400	4,811,700
Aa2	4,804,050	4,977,400
Aa3	12,625,950	4,759,750
A1	52,474,650	22,685,950
A2	57,338,100	-
A3	54,714,850	-
Baa1	55,005,868	-
Baa2	41,107,330	-
Baa3	9,550,750	-
Ba1 or Lower	-	-
Total	\$ 296,458,848	\$ 37,234,800

PERMANENT FUNDS

SCHEDULE 3

COMMINGLED MONTHLY EQUITY FUND SCHEDULE OF FIDUCIARY NET INVESTMENT POSITION

Classification	
Cash and Cash Equivalents	\$ 1,342,281
Common and Preferred Stock	436,710,423
Real Estate Investment Trusts	14,301,956
Depository Receipts and Other Miscellaneous	382,241
Total Investments	452,736,901
Income and Other Receivables	1,130,723
Collateral Held Under Securities Lending Agreements	8,217,332
Distributions and Other Payables	(1,635,043)
Obligations Under Securities Lending Agreements	(8,217,332)
CMEF Fiduciary Net Investment Position June 30, 2022	\$ 452,232,581

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	\$ 8,328	\$ 10,717,867	\$ 10,726,195	2.4%
CANADIAN DOLLAR	100,965	15,413,057	15,514,022	3.4%
SWISS FRANC	10,986	12,758,938	12,769,924	2.8%
EURO CURRENCY	205,373	36,986,752	37,192,125	8.2%
POUND STERLING	95,767	20,278,485	20,374,252	4.5%
HONG KONG DOLLAR	58,269	3,147,807	3,206,076	0.7%
JAPANESE YEN	291,935	29,993,979	30,285,914	6.7%
SWEDISH KRONA	11,118	4,521,708	4,532,826	1.0%
OTHER (MISC)	14,240	8,211,052	8,225,292	1.8%
Total Foreign Currency Exposure	\$ 796,981	\$ 142,029,645	\$ 142,826,626	31.5%



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, 2022, and the related notes to the financial statements, which collectively comprise the Permanent Funds' basic financial statements, and have issued our report thereon dated September 20, 2022.

REPORT ON 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.

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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 or significant deficiencies may exist that have not been identified.

REPORT ON 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, contracts, and grant agreements, 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 entity'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 entity'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 20, 2022



GUARANTEED EDUCATION TUITION FUND



INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF THE WASHINGTON STATE INVESTMENT BOARD

OLYMPIA, WASHINGTON

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the 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, 2022, and the related statement of changes in fiduciary net investment position for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying 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, 2022, 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.

BASIS FOR OPINION

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Guaranteed Education Tuition Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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RESPONSIBILITIES OF MANAGEMENT FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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 RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Guaranteed Education Tuition Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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

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information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2022 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 grant agreements 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.

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

Boise, Idaho

September 20, 2022

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, 2022. 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, 2022. The following table compares the fiduciary net investment position of each major investment classification at June 30, 2022, with those at June 30, 2021. 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

Fiscal Year 2022 began with concerns around supply chain disruptions, rising inflation, and a peak in the rate of economic growth. Increased regulation of the Chinese technology sector and fears around the potential default of a large Chinese property developer hampered emerging market returns. In the wake of the pullback in the Chinese equity market, the Morgan Stanley Capital International (MSCI) Emerging Markets (EM) Investable Market Index (IMI) was down 7.4 percent, while the MSCI Developed Market World IMI returned (0.2) percent for the quarter. The U.S. Federal Reserve (Fed) announced their plan to slow the pace of its bond buying program, also known as tapering. Tapering is a controlled way to phase out quantitative easing while managing the continued economic recovery. The indication of tapering from the Fed in September caused an increase in the U.S. 10-year Treasury rate by 0.2 percent for the month to finish the quarter at 1.5 percent.

In the second quarter of Fiscal Year 2022, the emergence of the highly infectious Omicron variant caused an increase in equity market volatility. Markets rebounded quickly after knowledge that the new variant was not as potent as the previous Delta variant. Strong quarterly corporate earnings and potential for further growth in Fiscal Year 2022 outweighed the risk factors in the second quarter. The Fed voted to maintain the current federal funds target rate and announced plans to accelerate the tapering of asset purchases from \$15.0 billion to \$30.0 billion per month, beginning in January 2022. The MSCI Developed Market World IMI returned 7.1 percent for the quarter. Emerging market countries underperformed the developed markets in the second quarter. Global equity markets rallied to end the second quarter with strong positive returns for the third consecutive calendar year.

Global markets were faced with a myriad of concerns in the third quarter of the fiscal year. Russia's invasion of Ukraine caused a major global shock and the markets reacted, with equities declining and bond prices falling. Commodity prices continued to increase, which contributed to a further surge in inflation. Increased price pressure, coupled with the economic impact of the invasion, presented a challenge for global central banks to slow down inflation while supporting economic growth. The MSCI Developed Market World IMI returned (5.3) percent and the MSCI Emerging Markets IMI returned (6.7) percent in the

GUARANTEED EDUCATION TUITION FUND

third quarter. In a much-anticipated action, the Fed raised the target rate by 0.25 percent on March 16th and made it clear that further increases will follow. Interest rates increased dramatically, with the U.S. 10-year Treasury rate jumping 0.8 percent to end the quarter at 2.3 percent, the highest rate since April 2019 at 2.5 percent.

The close of the fiscal year marked the end to another very difficult quarter for global equity markets in a year already full of challenges. Developed market equities returned their worst performance for the fiscal year in over 50 years. The ongoing conflict in Ukraine, central banks tightening monetary policy, and rapidly rising inflation worldwide contributed to negative investor sentiment. Headline U.S. inflation reported in June continued to be elevated through year end at 8.6 percent, the highest it has been since 1981. In an attempt to reduce inflation without causing a recession, the Fed raised interest rates twice during the quarter. The Fed increased the target rate 0.50 percent in May and 0.75 percent in June to bring the target rate range to 1.5 to 1.75 percent. The rate hike in June was the first increase of this magnitude since November 1994. The Fed rate hikes caused U.S. interest rates to significantly increase in the last quarter, with the U.S. 10-year Treasury rate climbing 0.7 percent to end the fiscal year at 3.0 percent. The MSCI Developed Market World IMI returned (16.3) percent for the quarter, and (15.3) percent for the fiscal year. Emerging Markets slightly outperformed developed markets for the quarter. The MSCI Emerging Markets IMI returned (12.1) percent for the quarter, and (24.8) percent during the last one-year period. Credit spreads widened along with the selloff in global equities. Investment grade spreads widened 39 basis points in the quarter to 155 basis points, which was 75 basis points higher for the fiscal year. High yield spreads widened 244 basis points in the quarter to 569 basis points, which was 301 basis points higher for the fiscal year.

As shown in the following table, the fiduciary net investment position of the GET Fund decreased by \$188.0 million during the fiscal year ended June 30, 2022. Net realized and unrealized losses decreased fiduciary net investment position by \$207.6 million in the current fiscal year. Net contributions by the GET Fund participants during the year increased fiduciary net investment position by \$5.8 million. Net investment income net of expenses increased fiduciary net investment position by \$13.8 million and was reinvested within the various asset classes.

Net investment income decreased by 179.5 percent from the previous fiscal year, mainly due increases in realized and unrealized losses in the debt and equity markets. Realized and unrealized losses increased by 189.8 percent from the previous year as the result of significant decreases in overall returns from the prior year, which was the result of a heavy decline in market returns discussed previously. The current fiscal year return for the GET Fund was (11.5) percent, compared to the prior fiscal year return of 16.8 percent.

Contributions decreased by \$2.4 million during the current fiscal year compared to the previous fiscal year. Contributions and withdrawals from the funds are made by the Washington Student 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, 2022				Fiscal Year End June 30, 2021				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 (**)	\$ 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%
Investment Income:										
Interest, Dividends, and Other Investment Income	63,059	-	14,339,332	14,402,391	26,470	-	12,989,094	13,015,564	1,386,827	10.7%
Realized and Unrealized Gains (Losses)	-	(84,781,837)	(122,855,951)	(207,637,788)	-	18,867,893	212,336,290	231,204,183	(438,841,971)	-189.8%
Less: Investment Expenses	(273,459)	(3,804)	(292,131)	(569,394)	(291,698)	(2,575)	(282,304)	(576,577)	(7,183)	-1.2%
Net Investment Income (Loss)	(210,400)	(84,785,641)	(108,808,750)	(193,804,791)	(265,228)	18,865,318	225,043,080	243,643,170	(437,447,961)	-179.5%
Net Contribution	5,814,115	-	-	5,814,115	8,179,254	-	-	8,179,254	(2,365,139)	-28.9%
Transfers Between Asset Classes	(2,260,020)	51,303,804	(49,043,784)	-	(235,720)	52,002,575	(51,766,855)	-	-	N/A
Ending Fiduciary Net Investment Position (**)	\$ 31,338,738	\$ 911,796,566	\$ 578,278,795	\$ 1,521,414,099	\$ 27,995,043	\$ 945,278,403	\$ 736,131,329	\$ 1,709,404,775	\$ (187,990,676)	-11.0%
Increase (Decrease) in Fiduciary Net Investment Position	\$ 3,343,695	\$ (33,481,837)	\$ (157,852,534)	\$ (187,990,676)						
Percent Change in Fiduciary Net Investment Position	11.9%	-3.5%	-21.4%	-11.0%						
One Year Time Weighted Return - June 30, 2022	0.2%	-8.6%	-15.9%	-11.5%						
One Year Time Weighted Return - June 30, 2021	0.0%	2.2%	41.4%	16.8%						

(*) 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:

- Cash and cash equivalents** fiduciary net investment position increased by \$3.3 million, primarily from contributions received from the WSAC. Cash balances represent less than 5 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 strategic asset allocation targets. Money market balance fluctuations result from the timing of cash received and the reinvestment to other asset classes. Cash returns for the one-year period ended June 30, 2022, increased over the prior fiscal year to 0.2 percent, resulting in an increase in interest income over the prior year. Short-term rates moved considerably higher over the fiscal year as a result of Fed actions. The Fed increased the target range for federal funds by 150 basis points during the fiscal year which had a positive 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 \$33.5 million, due to net realized and unrealized losses during the current fiscal year of \$84.8 million. This decrease was partially offset as equity securities were sold and the resulting proceeds of \$49.0 million were reinvested in debt securities to maintain strategic asset allocation targets. 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 significant decrease in returns from the prior fiscal year contributed to the decrease of net realized and unrealized losses in the current year.

GUARANTEED EDUCATION TUITION FUND

Performance of the Bond Fund for the fiscal year ended June 30, 2022, was (8.6) percent, which slightly outperformed its benchmark, the Bloomberg U.S. Intermediate Credit Index, which was (9.0) percent. During the current fiscal year, interest rates rose substantially, causing bond prices to decrease, which negatively impacted overall bond market returns. Credit spreads widened substantially during the current fiscal year, which further contributed to negative bond market returns. The combination of rising interest rates and widening credit spreads caused the bond market returns to be significantly lower than the previous year. The Bond Fund maintained a shorter maturity profile than its benchmark which contributed to the outperformance.

See the Daily Valued Fund audited financial statements for additional information on this investment vehicle.

- **Equity securities** fiduciary net investment position decreased by \$157.9 million as a result of market related losses and asset allocation rebalancing transfers. Realized and unrealized losses in the current fiscal year reduced equity balances by \$122.9 million. Equity securities were sold and the proceeds of \$49.0 million were reinvested in debt securities to maintain strategic asset allocation targets. The overall investment return for equity securities in the current fiscal year of (15.9) percent was a significant decrease from the prior fiscal year return of 41.4 percent. The significant decline in returns over the fiscal year resulted in the large market related losses in the equity portfolio.

The GET Fund's global equity portfolio is passively managed and structured to closely track the performance of its global benchmark, the MSCI All Country World Investable Market Index (MSCI ACWI IMI), which returned (16.3) percent in the current fiscal year. The equity portfolio returned (15.9) percent, slightly overperforming the global equity benchmark. The largest driver of the outperformance was security and country weights that were modestly different than the benchmark.

The first half of the fiscal year began on a positive note with the global equity benchmark, the MSCI ACWI IMI, a broad barometer of overall equity performance, returning 5.0 percent in the first half of the fiscal year. However, in the second half of the year, the market environment changed dramatically, and the benchmark experienced two consecutive quarters of negative returns, declining greater than 15.0 percent in the final quarter of fiscal year 2022 alone. A confluence of events brought about the turbulent markets during this period, including geopolitical factors, a shift to tighter monetary policy due to higher inflation, and the continuation of the COVID global pandemic.

GUARANTEED EDUCATION TUITION FUND

As shown in the following table, securities on loan decreased by \$4.5 million and collateral held under securities lending agreements decreased accordingly. The second half of the fiscal year saw extreme volatility across all public markets as discussed previously. Hedge funds, normally a significant source of borrowing activity, remained on the sidelines during the market volatility contributing to a reduction in demand. While the broader market has seen less lending demand, some borrowers were willing to pay premiums to borrow specific securities, including a resurgence of demand for some “meme-stocks”, as well as companies in the electric vehicle space. In the international equity lending market, demand for previously popular lendable securities continued to decline during the current year as well.

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, 2022	June 30, 2021	Decrease	Percent Change
Securities on Loan Fiscal Year End	\$ 11,935,926	\$ 16,483,098	\$ (4,547,172)	-27.6%
Cash Collateral Held Under Securities Lending Agreements	\$ 9,142,704	\$ 7,303,172	\$ 1,839,532	
Non-Cash Collateral Held Under Securities Lending Agreements	\$ 3,416,176	\$ 10,010,351	\$ (6,594,175)	
Total Collateral Held	\$ 12,558,880	\$ 17,313,523	\$ (4,754,643)	-27.5%

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 on Advanced Tuition Payment and College Savings, makes the asset allocation decisions for the GET Fund investments.

GUARANTEED EDUCATION TUITION FUND

GET FUND STATEMENT OF FIDUCIARY NET INVESTMENT POSITION JUNE 30, 2022

SEE NOTES TO FINANCIAL STATEMENTS

		Percent of Total
ASSETS		
Investments		
CASH AND CASH EQUIVALENTS	\$ 34,555,400	2.3%
DEBT SECURITIES		
Commingled Intermediate Credit	911,796,564	
Total Debt Securities	911,796,564	60.0%
EQUITY SECURITIES		
Common and Preferred Stock	553,498,152	
Real Estate Investment Trusts	16,289,734	
Depository Receipts and Other	3,703,815	
Total Equity Securities	573,491,701	37.7%
Total Investments	1,519,843,665	100.0%
Collateral Held Under Securities Lending Agreements	9,142,704	
Pending Trades and Other Investment Receivables	1,679,560	
Total Assets	1,530,665,929	
LIABILITIES		
Obligations Under Securities Lending Agreements	9,142,704	
Pending Trades and Other Investment Payables	109,126	
Total Liabilities	9,251,830	
FIDUCIARY NET INVESTMENT POSITION	\$ 1,521,414,099	

GUARANTEED EDUCATION TUITION FUND

GET FUND STATEMENT OF CHANGES IN FIDUCIARY NET INVESTMENT POSITION YEAR ENDED JUNE 30, 2022

SEE NOTES TO FINANCIAL STATEMENTS

Net Investment Income	
Investment Income	
Interest, Dividends and Other Investment Income	\$ 14,283,157
Securities Lending Income	119,234
Net Realized Capital Gains (Losses)	23,745,318
Unrealized Gains (Losses)	(231,383,106)
Less:	
Securities Lending Rebates and Fees	(27,395)
Investment Expenses	(293,463)
WSIB Operating Expenses	(248,536)
Net Investment Income (Loss)	(193,804,791)
Net Contribution (Withdrawal)	<u>5,814,115</u>
Increase (Decrease) in Fiduciary Net Investment Position	<u>(187,990,676)</u>
Fiduciary Net Investment Position - June 30, 2021	<u>1,709,404,775</u>
Fiduciary Net Investment Position - June 30, 2022	<u>\$ 1,521,414,099</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 2022 was \$0.1 million. Securities lending expenses during the fiscal year totaled \$0.03 million.

CONTRIBUTIONS AND WITHDRAWALS

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

USE OF ESTIMATES

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

NOTE 2. FEES AND EXPENSES

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

NOTE 3. DEPOSIT AND INVESTMENT RISK DISCLOSURES

CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that, in the event a depository institution or counterparty fails, the GET Fund will not be able to recover the value of its deposits, investments, or collateral securities. As of June 30, 2022, 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 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, 2022. The schedules display various asset classes held by maturity in years, effective durations, and credit ratings. Fixed income securities are reported using the average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity of these securities, taking into account possible prepayments of principal.

CREDIT RISK

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The GET Fund's investment policies limit the fixed income securities to investment grade or higher at the time of purchase. Investment grade securities are those fixed income securities with a Moody's rating of Aaa to Baa or a Standard and Poor's rating of AAA to BBB. The rated debt investments, as of June 30, 2022, 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, 2022.

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 SSC 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, 2022, was approximately \$11.9 million. The securities on loan remain in the Statement of Fiduciary Net Investment Position in their respective categories. At June 30, 2022, cash collateral received totaling \$9.1 million is reported as a securities lending obligation, and the fair value of the reinvested cash collateral totaling \$9.1 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, 2022, was \$12.6 million.

GUARANTEED EDUCATION TUITION FUND

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, 2022.

In Millions:	Cash Collateral	Non-Cash Collateral	Total
Repurchase Agreements	\$ 5.2	\$ -	\$ 5.2
Yankee CD	1.4	-	1.4
Commercial Paper	1.9	-	1.9
U.S. Treasuries	-	3.4	3.4
Cash Equivalents and Other	0.6	-	0.7
Total Collateral Held	\$ 9.1	\$ 3.4	\$ 12.6

During Fiscal Year 2022, securities lending transactions could be terminated on demand by either the GET Fund or the borrower. As of June 30, 2022, the cash collateral held had an average duration of 3.57 days and an average weighted final maturity of 55.68 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 2022, 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 2022, 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, 2022, the derivative instruments held by the GET Fund are considered investment derivative instruments and not hedging derivative instruments for accounting purposes.

GUARANTEED EDUCATION TUITION FUND

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 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, 2022, 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, 2022, 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.

	Classification	Changes in Fair Value - Included in Investment Income	Fair Value at June 30, 2022 - Investment Derivative Instrument	Notional
		Amount	Amount	
FUTURES CONTRACTS:				
Equity Index Futures	Investment	\$ (680,176)	\$ 110	1,850

NOTE 6. FAIR VALUE

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

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

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

The GET Funds receive fair value prices for publicly traded securities directly from their custodian bank. These prices are obtained from reputable pricing sources, which include, but are not limited to, Thomson Reuters, Bloomberg Valuation Services, 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, 2022:

	Fair Value Measurements Using:			
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
INVESTMENTS				
EQUITY SECURITIES	\$ 573,491,701	\$ 572,437,636	\$ 803,725	\$ 250,340
Total Investments By Fair Value Level	573,491,701	572,437,636	803,725	250,340
INVESTMENTS MEASURED AT NET ASSET VALUE				
Commingled Intermediate Credit	911,796,564			
Total Investments Measured at Fair Value	\$ 1,485,288,265			
OTHER ASSETS (LIABILITIES) AT FAIR VALUE				
Collateral Held Under Securities Lending Agreements	\$ 9,142,704	\$ -	\$ 9,142,704	\$ -
Margin Variation Receivable - Futures Contracts	110	110	-	-
Obligations Under Securities Lending Agreements	(9,142,704)	-	(9,142,704)	-
Total Other Assets (Liabilities) Measured at Fair Value	\$ 110	\$ 110	\$ -	\$ -

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 managed by the WSIB. 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 this fund are publicly traded debt securities and are actively managed to meet or exceed the return of the Bloomberg 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 financial statements for further information).

OTHER ASSETS AND LIABILITIES

Collateral held and obligations under securities lending agreements are detailed in Note 4 to the basic financial statements. Cash collateral securities (and the offsetting obligation) are valued by the GET Fund’s lending agent and sourced from reputable pricing vendors, using proprietary models that are market-based

measurements representing their good faith opinion as to the exit value of a security, in an orderly transaction under current market conditions. Such models take into account quoted prices, nominal yield spreads, benchmark yield curves, prepayment speeds, and other market corroborated inputs.

Gains and losses on futures contracts are settled daily, based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. The margin variation represents the current gain or loss remaining to be settled from the prior day. The custodian provides quoted market prices for these securities from a reputable pricing vendor.

NOTE 7. SUMMARY OF INVESTMENT POLICY

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

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

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

PERFORMANCE OBJECTIVES

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

- Achieve or exceed a 3.25 percent real rate of return relative to inflation, as measured by the Consumer Price Index (CPI), over a 10-year period.
- Relative to asset allocation targets, generate a return equal to or in excess of the weighted average passive benchmark for all asset classes within the portfolio.
- The benchmark and structure for public equity investments will be to passively track the broad global stock market as defined by the MSCI 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 Agencies.
- 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	\$ 911,796,564	\$ 91,356,341	\$ 502,553,836	\$ 309,307,194	\$ 8,579,193	4.3	Schedule 2
Investments Not Required to be Categorized							
Equity Securities	573,491,701						
Cash and Cash Equivalents	34,555,400						
Total Investments Not Categorized	608,047,101						
Total Investments	\$ 1,519,843,665						

* Duration excludes cash and cash equivalents

SCHEDULE 2

ADDITIONAL CREDIT RATING DISCLOSURES

Moody's Equivalent Credit Rating	Commingled Intermediate Credit	
	Total Fair Value	
Aaa	\$	23,450,619
Aa1		32,361,613
Aa2		13,851,384
Aa3		39,906,358
A1		126,317,034
A2		120,338,410
A3		152,648,762
Baa1		117,128,277
Baa2		172,772,094
Baa3		95,019,623
Ba1 or Lower		18,002,390
Total	\$	911,796,564

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	\$ 59,816	\$ 12,020,201	\$ 12,080,017	0.8%
CANADIAN DOLLAR	160,475	18,368,370	18,528,845	1.2%
SWISS FRANC	18,558	13,967,219	13,985,777	0.9%
DANISH KRONE	11,846	3,999,913	4,011,759	0.3%
EURO CURRENCY	76,835	43,619,887	43,696,722	2.9%
POUND STERLING	125,432	23,132,128	23,257,560	1.5%
HONG KONG DOLLAR	126,978	21,701,601	21,828,579	1.4%
INDIAN RUPEE	164,384	9,335,180	9,499,564	0.6%
JAPANESE YEN	501,660	34,076,527	34,578,187	2.3%
SOUTH KOREAN WON	45,909	7,693,221	7,739,130	0.5%
SWEDISH KRONA	32,032	5,412,920	5,444,952	0.4%
NEW TAIWAN DOLLAR	283,746	10,229,127	10,512,873	0.7%
OTHER - MISCELLANEOUS	841,418	24,461,437	25,302,855	1.7%
Total Foreign Currency Exposure	\$ 2,449,089	\$ 228,017,731	\$ 230,466,820	15.2%



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, 2022, and the related notes to the financial statements, which collectively comprise the Guaranteed Education Tuition Fund's basic financial statements, and have issued our report thereon dated September 20, 2022.

REPORT ON 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.

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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 or significant deficiencies may exist that have not been identified.

REPORT ON 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, contracts, and grant agreements, 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 entity'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 entity'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 20, 2022



**DEVELOPMENTAL DISABILITIES
ENDOWMENT TRUST FUND**



INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF THE WASHINGTON STATE INVESTMENT BOARD

OLYMPIA, WASHINGTON

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the 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, 2022, and the related statement of changes in fiduciary net investment position for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying 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, 2022, 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.

BASIS FOR OPINION

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Developmental Disabilities Endowment Trust Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST FUND

RESPONSIBILITIES OF MANAGEMENT FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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 RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Developmental Disabilities Endowment Trust Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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

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DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST FUND

information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2022 on our consideration of the Developmental Disability Endowment Trust Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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.

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

Boise, Idaho
September 20, 2022

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MANAGEMENT DISCUSSION AND ANALYSIS

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

The financial statements and footnotes follow this section of the report. The Statement of Fiduciary Net Investment Position provides information on the types of investments, assets, and liabilities of the DDEF as of June 30, 2022. 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, 2022. The following table compares the fiduciary net investment position of each major investment classification at June 30, 2022, with those at June 30, 2021. 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

Fiscal Year 2022 began with concerns around supply chain disruptions, rising inflation, and a peak in the rate of economic growth. Increased regulation of the Chinese technology sector and fears around the potential default of a large Chinese property developer hampered emerging market returns. In the wake of the pullback in the Chinese equity market, the Morgan Stanley Capital International (MSCI) Emerging Markets (EM) Investable Market Index (IMI) was down 7.4 percent, while the MSCI Developed Market World IMI returned (0.2) percent for the quarter. The U.S. Federal Reserve (Fed) announced their plan to slow the pace of its bond buying program, also known as tapering. Tapering is a controlled way to phase out quantitative easing while managing the continued economic recovery. The indication of tapering from the Fed in September caused an increase in the U.S. 10-year Treasury rate by 0.2 percent for the month to finish the quarter at 1.5 percent.

In the second quarter of Fiscal Year 2022, the emergence of the highly infectious Omicron variant caused an increase in equity market volatility. Markets rebounded quickly after knowledge that the new variant was not as potent as the previous Delta variant. Strong quarterly corporate earnings and potential for further growth in Fiscal Year 2022 outweighed the risk factors in the second quarter. The Fed voted to maintain the current federal funds target rate and announced plans to accelerate the tapering of asset purchases from \$15.0 billion to \$30.0 billion per month, beginning in January 2022. The MSCI Developed Market World IMI returned 7.1 percent for the quarter. Emerging market countries underperformed the developed markets in the second quarter. Global equity markets rallied to end the second quarter with strong positive returns for the third consecutive calendar year.

Global markets were faced with a myriad of concerns in the third quarter of the fiscal year. Russia's invasion of Ukraine caused a major global shock and the markets reacted, with equities declining and bond prices falling. Commodity prices continued to increase, which contributed to a further surge in inflation. Increased price pressure, coupled with the economic impact of the invasion, presented a challenge for global central banks to slow down inflation while supporting economic growth. The MSCI Developed Market World IMI returned (5.3) percent and the MSCI Emerging Markets IMI returned (6.7) percent in the

DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST FUND

third quarter. In a much-anticipated action, the Fed raised the target rate by 0.25 percent on March 16th and made it clear that further increases will follow. Interest rates increased dramatically, with the U.S. 10-year Treasury rate jumping 0.8 percent to end the quarter at 2.3 percent, the highest rate since April 2019 at 2.5 percent.

The close of the fiscal year marked the end to another very difficult quarter for global equity markets in a year already full of challenges. Developed market equities returned their worst performance for the fiscal year in over 50 years. The ongoing conflict in Ukraine, central banks tightening monetary policy, and rapidly rising inflation worldwide contributed to negative investor sentiment. Headline U.S. inflation reported in June continued to be elevated through year end at 8.6 percent, the highest it has been since 1981. In an attempt to reduce inflation without causing a recession, the Fed raised interest rates twice during the quarter. The Fed increased the target rate 0.50 percent in May and 0.75 percent in June to bring the target rate range to 1.5 to 1.75 percent. The rate hike in June was the first increase of this magnitude since November 1994. The Fed rate hikes caused U.S. interest rates to significantly increase in the last quarter, with the U.S. 10-year Treasury rate climbing 0.7 percent to end the fiscal year at 3.0 percent. The MSCI Developed Market World IMI returned (16.3) percent for the quarter, and (15.3) percent for the fiscal year. Emerging Markets slightly outperformed developed markets for the quarter. The MSCI Emerging Markets IMI returned (12.1) percent for the quarter, and (24.8) percent during the last one-year period. Credit spreads widened along with the selloff in global equities. Investment grade spreads widened 39 basis points in the quarter to 155 basis points, which was 75 basis points higher for the fiscal year. High yield spreads widened 244 basis points in the quarter to 569 basis points, which was 301 basis points higher for the fiscal year.

As shown in the following table, the fiduciary net investment position of the DDEF decreased by \$7.9 million for the fiscal year ended June 30, 2022. Participants' net contributions to the DDEF during the year increased fiduciary net investment position by \$5.3 million. Net realized and unrealized losses decreased the fiduciary net investment position of the fund by \$16.4 million. The remaining year over year change to fiduciary net investment position was attributable to net investment income reinvested within the DDEF.

Net investment income (loss) decreased by 169.8 percent from the previous fiscal year, mainly due to increases in net realized and unrealized losses within the Balanced Funds portfolio. Realized and unrealized losses increased by 198.0 percent from the previous year as the result of significant decreases in overall returns from the prior year, which was the result of a heavy decline in market returns discussed previously. The current fiscal year return for the DDEF was (12.3) percent, compared to the prior year return of 23.3 percent.

Contributions increased by \$1.3 million during the current fiscal year compared to the previous fiscal year. Contributions and withdrawals from the DDEF are made by the Washington State Department of Commerce (Commerce) based on individual participant contributions made and withdrawals requested. These transactions can vary substantially from year to year based on participant needs.

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	Summarized Change in Fiduciary Net Investment Position and Returns by Asset Class											
	Fiscal Year End June 30, 2022					Fiscal Year End June 30, 2021					Year Over Year Change	
	Cash and Cash Equivalents (*)	Debt Securities	Equity Securities (*)	Balanced Funds	Total	Cash and Cash Equivalents	Debt Securities	Equity Securities	Balanced Funds	Total	Increase (Decrease)	Percent Change
Beginning 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%
Investment Income:												
Interest, Dividends, and Other Investment Income	335	-	1,744	3,181,114	3,183,193	93	-	1,871	2,259,011	2,260,975	922,218	40.8%
Realized and Unrealized Gains (Losses)	-	(736,726)	(734,960)	(14,936,950)	(16,408,636)	-	205,671	1,649,710	14,891,255	16,746,636	(33,155,272)	-198.0%
Less: Investment Expenses	(107)	(1,353)	(2,299)	(16,665)	(20,424)	(81)	(1,553)	(2,435)	(15,430)	(19,499)	925	4.7%
Net Investment Income (Loss)	228	(738,079)	(735,515)	(11,772,501)	(13,245,867)	12	204,118	1,649,146	17,134,836	18,988,112	(32,233,979)	-169.8%
Net Amount Contributed	5,337,150	-	-	-	5,337,150	4,065,473	-	-	-	4,065,473	1,271,677	31.3%
Transfers to Other Asset Classes	(5,351,061)	389,148	200,338	4,761,575	-	(4,066,767)	(1,227,472)	(1,757,224)	7,051,463	-	N/A	N/A
Ending Fiduciary Net Investment Position	\$ 12,629	\$ 8,136,183	\$ 4,410,633	\$ 82,129,317	\$ 94,688,762	\$ 26,312	\$ 8,485,114	\$ 4,945,810	\$ 89,140,243	\$ 102,597,479	\$ (7,908,717)	-7.7%
Increase (Decrease) in Fiduciary Net Investment Position	\$ (13,683)	\$ (348,931)	\$ (535,177)	\$ (7,010,926)	\$ (7,908,717)							
Percent Change in Fiduciary Net Investment Position	-52.0%	-4.1%	-10.8%	-7.9%	-7.7%							
One Year Time Weighted Return - June 30, 2022	0.9%	-8.6%	-16.3%	-12.5%	-12.3%							
One Year Time Weighted Return - June 30, 2021	0.1%	2.2%	41.1%	24.8%	23.3%							

(*) 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, 2022, increased over the prior fiscal year to 0.9 percent, resulting in an increase in interest income over the prior year. Short-term rates moved considerably higher over the fiscal year as a result of Fed actions. The Fed increased the target range for federal funds by 150 basis points during the fiscal year which had a positive 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 \$0.3 million, in part due to net realized and unrealized losses during the current fiscal year of \$0.7 million. The decline was offset by contributions of \$0.4 million received from Commerce which were invested in debt securities in order to maintain strategic asset allocation targets. The DDEF invests in the Daily Valued Bond Fund (Bond Fund), a commingled investment fund managed by the WSIB. Accordingly, interest income is retained and reinvested within the commingled fund, which is reflected in net realized and unrealized gains and losses. The significant decrease in returns from the prior fiscal year contributed to the decrease of net realized and unrealized losses in the current year.

Performance of the Bond Fund for the fiscal year ended June 30, 2022, was (8.6) percent, which slightly outperformed its benchmark, the Bloomberg U.S. Intermediate Credit Index, which was (9.0) percent. During the current fiscal year, interest rates rose substantially, causing bond prices to decrease, which negatively impacted overall bond market returns. Credit spreads widened substantially during the current fiscal year, which further contributed to negative bond market returns. The combination of rising interest rates and widening credit spreads caused the bond market returns to be significantly lower than the previous year. The fund maintained a shorter maturity profile than its benchmark which contributed to the outperformance.

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

- **Equity securities** fiduciary net investment position decreased by \$0.5 million, in part due to net realized and unrealized losses during the current fiscal year. This decline was offset by contributions received from Commerce of \$0.2 million invested in equity securities during the current fiscal year to maintain strategic asset allocation targets. Realized and unrealized losses decreased the portfolio by \$0.7 million as the result of heavy declines in investment returns within the portfolio. The overall investment return for equity securities in the current fiscal year was (16.3) percent, a significant decline from the prior fiscal year return of 41.1 percent. The DDEF global equity portfolio is passively managed and structured to closely track the performance of its benchmark, the MSCI All Country World Investable Market Index (MSCI ACWI IMI). For the current fiscal year, the equity portfolio returns matched the performance of their global equity benchmark of (16.3) percent.

The first half of the fiscal year began on a positive note with the global equity benchmark, the MSCI ACWI IMI, a broad barometer of overall equity performance, returning 5.0 percent in the first half of the fiscal year. However, in the second half of the year, the market environment changed dramatically, and the benchmark experienced two consecutive quarters of negative returns, declining greater than 15.0 percent in the final quarter of Fiscal Year 2022 alone. A confluence of events brought about the turbulent markets during this period, including geopolitical factors, a shift to tighter monetary policy due to higher inflation and a continuation of the COVID global pandemic.

- **Balanced Funds** fiduciary net investment position decreased by \$7.0 million. New Private Trust Fund participant contributions received from Commerce of \$4.8 million increased the invested balances. Realized and unrealized losses decreased the portfolio by \$14.9 million as the result of heavy declines in investment returns. 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 (12.5) percent, which was a significant decrease from the prior fiscal year return of 24.8 percent. As a Balanced Fund, strong negative returns in both equity and fixed income markets drove the significant decline in the fund's total return. The blended benchmark for the Balanced Fund, composed of 60 percent CRSP U.S. Total Market Index and 40 percent Bloomberg U.S. Aggregate Float Adjusted Total Return Index, returned (12.2) percent for the fiscal year.

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

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 Endowment Trust Fund 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, 2022

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	\$ 3,719	\$ 8,707	\$ 12,426	0.0%
DEBT SECURITIES				
Commingled Intermediate Credit	8,136,185	-	8,136,185	8.6%
EQUITY SECURITIES				
Commingled Equity Index Funds	4,410,948	-	4,410,948	4.7%
BALANCED FUNDS				
Commingled Balanced Trust	-	82,129,317	82,129,317	86.7%
Total Investments	12,550,852	82,138,024	94,688,876	100.0%
Investment Earning Receivable	226	9	235	
Total Assets	12,551,078	82,138,033	94,689,111	
LIABILITIES				
Accrued Expenses Payable	347	2	349	
FIDUCIARY NET INVESTMENT POSITION	\$ 12,550,731	\$ 82,138,031	\$ 94,688,762	

DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST FUND

DDEF STATEMENT OF CHANGES IN FIDUCIARY NET INVESTMENT POSITION YEAR ENDED JUNE 30, 2022

SEE NOTES TO FINANCIAL STATEMENTS

	Developmental Disabilities Endowment Trust Fund State	Developmental Disabilities Endowment Trust Fund Private	Total
Net Investment Income			
Investment Income			
Interest, Dividends and Other Investment Income	\$ 2,016	\$ 3,181,177	\$ 3,183,193
Net Realized Capital Gains (Losses)	234,634	-	234,634
Unrealized Gains (Losses)	(1,706,320)	(14,936,950)	(16,643,270)
Less:			
Investment Expenses	(1,651)	(3,117)	(4,768)
WSIB Operating Expenses	(15,656)	-	(15,656)
Net Investment Income (Loss)	(1,486,977)	(11,758,890)	(13,245,867)
Net Amount Contributed	854,270	4,482,880	5,337,150
Net Amount Transferred	(264,204)	264,204	-
Increase (Decrease) in Fiduciary Net Investment Position	(896,911)	(7,011,806)	(7,908,717)
FIDUCIARY NET INVESTMENT POSITION, JUNE 30, 2021	13,447,642	89,149,837	102,597,479
FIDUCIARY NET INVESTMENT POSITION, JUNE 30, 2022	\$ 12,550,731	\$ 82,138,031	\$ 94,688,762

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, 2022, 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 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, 2022. 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, considering 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, 2022, were rated by Moody's or equivalent rating methodology.

CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. Revised Code of Washington (RCW) 43.33A.140 requires that corporate fixed income securities cost may not exceed 3 percent of the DDEF fair value at the time of purchase, nor shall its fair value exceed 6 percent of the DDEF fair value at any time. There was no concentration of credit risk that exceeded these limits as of June 30, 2022.

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, 2022, consists of \$1.7 million (excludes U.S. dollar denominated securities), less than 2.0 percent of the total portfolio, invested in various global commingled equity index funds.

NOTE 4. FAIR VALUE

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

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

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

DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST FUND

The following table presents fair value measurements as of June 30, 2022:

	Fair Value Measurements Using:			
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
INVESTMENTS				
BALANCED FUNDS				
Balanced Mutual Funds	\$ 82,129,317	\$ 82,129,317	\$ -	\$ -
Total Investments By Fair Value Level	<u>\$ 82,129,317</u>	<u>\$ 82,129,317</u>	<u>\$ -</u>	<u>\$ -</u>
INVESTMENTS MEASURED AT NET ASSET VALUE				
Commingled Equity Index Funds	4,410,948			
Commingled Intermediate Credit	<u>8,136,185</u>			
Total Investments at Net Asset Value	<u>12,547,133</u>			
Total Investments Measured at Fair Value	<u>\$ 94,676,450</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, 2022, was \$40.15 per share, which was verified to independent sources by WSIB staff. The Balanced 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 (CIT) operated by a bank or trust company and groups assets contributed into a commingled investment fund. In addition, the DDEF invests in the 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 CIT 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 CIT 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 CIT 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 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	\$ 8,136,185	\$ 815,195	\$ 4,484,412	\$ 2,760,024	\$ 76,554	4.3	Schedule 2
Investments Not Required to be Categorized							
Commingled Equity Index Funds	4,410,948						
Balanced Mutual Funds	82,129,317						
Money Market Funds	12,426						
Total Investments Not Categorized	86,552,691						
Total Investments	\$ 94,688,876						

* Duration excludes cash and cash equivalents

SCHEDULE 2

ADDITIONAL CREDIT RATING DISCLOSURES

Moody's Equivalent Credit Rating	Commingled Intermediate Credit	
	Market Value	
Aaa	\$	209,256
Aa1		288,771
Aa2		123,599
Aa3		356,094
A1		1,127,159
A2		1,073,809
A3		1,362,122
Baa1		1,045,164
Baa2		1,541,688
Baa3		847,883
Ba1 or Lower		160,640
Total	\$	8,136,185



CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

TO THE MEMBERS OF THE WASHINGTON STATE INVESTMENT BOARD

OLYMPIA, WASHINGTON

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Developmental Disabilities Endowment Trust Fund as of and for the year ended June 30, 2022, 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 20, 2022.

REPORT ON 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,

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DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST FUND

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 or significant deficiencies may exist that have not been identified.

REPORT ON 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, contracts, and grant agreements, 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 entity'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 entity'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 20, 2022

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WASHINGTON STATE OPPORTUNITY SCHOLARSHIP FUND



INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF THE WASHINGTON STATE INVESTMENT BOARD

OLYMPIA, WASHINGTON

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the 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, 2022, and the related statement of changes in fiduciary net investment position for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying 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, 2022, 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.

BASIS FOR OPINION

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Washington State Opportunity Scholarship Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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RESPONSIBILITIES OF MANAGEMENT FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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 RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Washington State Opportunity Scholarship Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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

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information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2022 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 grant agreements 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.

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

Boise, Idaho

September 20, 2022

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, 2022. 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, 2022. The following table compares the fiduciary net investment position of each major investment classification at June 30, 2022, with those at June 30, 2021. 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

Fiscal Year 2022 began with concerns around supply chain disruptions, rising inflation, and a peak in the rate of economic growth. Increased regulation of the Chinese technology sector and fears around the potential default of a large Chinese property developer hampered emerging market returns. In the wake of the pullback in the Chinese equity market, the Morgan Stanley Capital International (MSCI) Emerging Markets (EM) Investable Market Index (IMI) was down 7.4 percent, while the MSCI Developed Market World IMI returned (0.2) percent for the quarter. The U.S. Federal Reserve (Fed) announced their plan to slow the pace of its bond buying program, also known as tapering. Tapering is a controlled way to phase out quantitative easing while managing the continued economic recovery. The indication of tapering from the Fed in September caused an increase in the U.S. 10-year Treasury rate by 0.2 percent for the month to finish the quarter at 1.5 percent.

In the second quarter of Fiscal Year 2022, the emergence of the highly infectious Omicron variant caused an increase in equity market volatility. Markets rebounded quickly after knowledge that the new variant was not as potent as the previous Delta variant. Strong quarterly corporate earnings and potential for further growth in Fiscal Year 2022 outweighed the risk factors in the second quarter. The Fed voted to maintain the current federal funds target rate and announced plans to accelerate the tapering of asset purchases from \$15.0 billion to \$30.0 billion per month, beginning in January 2022. The MSCI Developed Market World IMI returned 7.1 percent for the quarter. Emerging market countries underperformed the developed markets in the second quarter. Global equity markets rallied to end the second quarter with strong positive returns for the third consecutive calendar year.

Global markets were faced with a myriad of concerns in the third quarter of the fiscal year. Russia's invasion of Ukraine caused a major global shock and the markets reacted, with equities declining and bond prices falling. Commodity prices continued to increase, which contributed to a further surge in inflation. Increased price pressure, coupled with the economic impact of the invasion, presented a challenge for global central banks to slow down inflation while supporting economic growth. The MSCI Developed Market World IMI returned (5.3) percent and the MSCI Emerging Markets IMI returned (6.7) percent in the

WASHINGTON STATE OPPORTUNITY SCHOLARSHIP FUND

third quarter. In a much-anticipated action, the Fed raised the target rate by 0.25 percent on March 16th and made it clear that further increases will follow. Interest rates increased dramatically, with the U.S. 10-year Treasury rate jumping 0.8 percent to end the quarter at 2.3 percent, the highest rate since April 2019 at 2.5 percent.

The close of the fiscal year marked the end to another very difficult quarter for global equity markets in a year already full of challenges. Developed market equities returned their worst performance for the fiscal year in over 50 years. The ongoing conflict in Ukraine, central banks tightening monetary policy, and rapidly rising inflation worldwide contributed to negative investor sentiment. Headline U.S. inflation reported in June continued to be elevated through year end at 8.6 percent, the highest it has been since 1981. In an attempt to reduce inflation without causing a recession, the Fed raised interest rates twice during the quarter. The Fed increased the target rate 0.50 percent in May and 0.75 percent in June to bring the target rate range to 1.5 to 1.75 percent. The rate hike in June was the first increase of this magnitude since November 1994. The Fed rate hikes caused U.S. interest rates to significantly increase in the last quarter, with the U.S. 10-year Treasury rate climbing 0.7 percent to end the fiscal year at 3.0 percent. The MSCI Developed Market World IMI returned (16.3) percent for the quarter, and (15.3) percent for the fiscal year. Emerging Markets slightly outperformed developed markets for the quarter. The MSCI Emerging Markets IMI returned (12.1) percent for the quarter, and (24.8) percent during the last one-year period. Credit spreads widened along with the selloff in global equities. Investment grade spreads widened 39 basis points in the quarter to 155 basis points, which was 75 basis points higher for the fiscal year. High yield spreads widened 244 basis points in the quarter to 569 basis points, which was 301 basis points higher for the fiscal year.

As shown in the following table, the fiduciary net investment position of the WSOS Fund decreased by \$18.2 million for the fiscal year ended June 30, 2022. Net withdrawals from the WSOS Fund during the year decreased the fiduciary net investment position by \$8.6 million. Net realized and unrealized losses decreased the overall fiduciary net investment position by \$9.6 million.

Net investment income decreased by 184.5 percent from the previous fiscal year, primarily from increases in net realized and unrealized losses in equity and debt securities. Realized and unrealized losses increased significantly from the previous year as the result of large decreases in overall returns from the prior year, which was the result of overall market declines discussed previously. The current fiscal year return for the WSOS Fund was (9.4) percent, compared to the prior fiscal year return of 10.9 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 \$8.6 million from private scholarship funds during the current fiscal year, which was a decrease in net withdrawals of \$1.3 million over the prior fiscal year. Currently, the WSOS administrator expects to continue to make withdrawals from the private funds invested by WSIB to fund scholarship liabilities. The amount is dependent on the timing of pledge payments received in subsequent years and the size of new donations. Contributions are invested and withdrawals liquidated by the WSIB from the invested balances with the goal of maintaining strategic asset allocation targets.

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									
	Fiscal Year End June 30, 2022				Fiscal Year End June 30, 2021				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	\$ 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%
Investment Income:										
Interest, Dividends, and Other Investment Income	55,292	-	2,447	57,739	41,000	-	2,779	43,779	13,960	31.9%
Realized and Unrealized Gains (Losses)	-	(5,313,642)	(4,292,577)	(9,606,219)	-	1,388,522	9,999,587	11,388,109	(20,994,328)	-184.4%
Less: Investment Expenses	(32,536)	(9,846)	(12,211)	(54,593)	(38,022)	(11,398)	(13,231)	(62,651)	(8,058)	-12.9%
Net Investment Income (Loss)	22,756	(5,323,488)	(4,302,341)	(9,603,073)	2,978	1,377,124	9,989,135	11,369,237	(20,972,310)	-184.5%
Net Withdrawal by WSOS	(8,570,000)	-	-	(8,570,000)	(9,829,980)	-	-	(9,829,980)	1,259,980	-12.8%
Transfers to Other Asset Classes	4,970,987	(2,193,215)	(2,777,772)	-	8,802,626	(1,508,129)	(7,294,497)	-	-	N/A
Ending Fiduciary Net Investment Position	\$ 13,018,819	\$ 55,938,437	\$ 22,123,200	\$ 91,080,456	\$ 16,595,076	\$ 63,455,140	\$ 29,203,313	\$ 109,253,529	\$ (18,173,073)	-16.6%
Increase (Decrease) in Fiduciary Net Investment Position	\$ (3,576,257)	\$ (7,516,703)	\$ (7,080,113)	\$ (18,173,073)						
Percent Change in Fiduciary Net Investment Position	-21.6%	-11.8%	-24.2%	-16.6%						
One Year Time Weighted Return - June 30, 2022	0.2%	-8.6%	-16.3%	-9.4%						
One Year Time Weighted Return - June 30, 2021	0.0%	2.2%	41.0%	10.9%						

(*) 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 \$3.6 million. Withdrawals of \$8.6 million were requested by the administrator from investments in the private scholarship fund. Approximately \$5.0 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, 2022, increased over the prior fiscal year to 0.2 percent, resulting in an increase in interest income over the prior year. Short-term rates moved considerably higher over the fiscal year as a result of Fed actions. The Fed increased the target range for federal funds by 150 basis points during the fiscal year. The Fed rate hikes had a positive 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 \$7.5 million over the prior fiscal year. Realized and unrealized losses decreased the fiduciary net investment position by \$5.3 million as a result of negative returns in the fixed income portfolio. Proceeds from the sale of debt securities in the amount of \$2.2 million were transferred out of the debt portfolio to meet the withdrawal requests 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, 2022, was (8.6) percent, which slightly outperformed its benchmark, the Bloomberg U.S. Intermediate Credit Index, which returned (9.0) percent. The fund maintained a shorter maturity profile than its benchmark which contributed to the outperformance. During the current fiscal year, interest rates rose substantially, causing bond prices to decrease, which negatively impacted overall

bond market returns. Credit spreads widened substantially during the current fiscal year, which further contributed to negative bond market returns. The combination of rising interest rates and the widening credit spreads caused the bond market returns to be significantly lower than the previous year.

See the Daily Valued Fund audited financial statements for additional information on this investment vehicle.

- **Equity securities** fiduciary net investment position decreased by \$7.1 million as the result of investment losses and withdrawals by the fund administrator. The overall investment return for equity securities in the current fiscal year was (16.3) percent, a significant decline from the prior fiscal year return of 41.0 percent, which resulted in a realized and unrealized losses of \$4.3 million. Proceeds from the sale of equity securities in the amount of \$2.8 million were withdrawn to fund the cash requests of the administrator. The WSOS Fund's global equity portfolio is passively managed and structured to closely track the performance of its benchmark, the MSCI All Country World Investable Market Index (MSCI ACWI IMI). For the current fiscal year, the equity portfolio return matched the performance of the global equity benchmark of (16.3) percent.

The first half of the fiscal year began on a positive note with the global equity benchmark, the MSCI ACWI IMI, a broad barometer of overall equity performance, returning 5.0 percent in the first half of the fiscal year. However, in the second half of the year, the market environment changed dramatically, and the benchmark experienced two consecutive quarters of negative returns, declining greater than 15.0 percent in the final quarter of Fiscal Year 2022 alone. A confluence of events brought about the turbulent markets during this period, including geopolitical factors, a shift to tighter monetary policy due to higher inflation and a continuation of the COVID global pandemic.

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, 2022

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	\$ 12,406,907	\$ 587,384	\$ 13,826	\$ 13,008,117	14.3%
DEBT SECURITIES					
Commingled Intermediate Credit	54,751,188	1,187,249	-	55,938,437	61.4%
EQUITY SECURITIES					
Commingled Equity Index Funds	17,689,248	4,435,119	-	22,124,367	24.3%
Total Investments	84,847,343	6,209,752	13,826	91,070,921	100.0%
Investment Earnings Receivable	12,566	590	15	13,171	
Total Assets	84,859,909	6,210,342	13,841	91,084,092	
LIABILITIES					
Accrued Expenses Payable	3,241	393	2	3,636	
FIDUCIARY NET INVESTMENT POSITION	\$ 84,856,668	\$ 6,209,949	\$ 13,839	\$ 91,080,456	

WASHINGTON STATE OPPORTUNITY SCHOLARSHIP FUND

WASHINGTON STATE OPPORTUNITY SCHOLARSHIP FUND STATEMENT OF CHANGES IN FIDUCIARY NET INVESTMENT POSITION YEAR ENDED JUNE 30, 2022

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	\$ 54,712	\$ 2,978	\$ 49	\$ 57,739
Net Realized and Unrealized Gains (Losses)	(8,631,972)	(974,247)	-	(9,606,219)
Less:				
Investment Expenses	(36,183)	(2,746)	(20)	(38,949)
WSIB Operating Expenses	(14,578)	(1,066)	-	(15,644)
Net Investment Income (Loss)	(8,628,021)	(975,081)	29	(9,603,073)
Cash Transfers	16,646	1,333	(17,979)	-
Net Amount Withdrawn	(8,590,000)	-	20,000	(8,570,000)
Increase (Decrease) in Fiduciary Net Investment Position	(17,201,375)	(973,748)	2,050	(18,173,073)
FIDUCIARY NET INVESTMENT POSITION, JUNE 30, 2021	102,058,043	7,183,697	11,789	109,253,529
FIDUCIARY NET INVESTMENT POSITION, JUNE 30, 2022	\$ 84,856,668	\$ 6,209,949	\$ 13,839	\$ 91,080,456

NOTES TO FINANCIAL STATEMENTS

NOTE 1. DESCRIPTION OF FUNDS AND SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF FUNDS

The WSOS 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, 2022, 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 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, 2022. 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, 2022, 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, 2022.

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, 2022, consisted of \$8.8 million invested in an international commingled equity index funds (MSCI ACWI IMI). 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 the Statement 72 hierarchy of valuation classifications detailed above. Valuation policies and procedures are managed by the Investment Accounting and Administration Unit of the WSIB, which regularly monitors fair value measurements. Fair value measurements are prepared and reviewed monthly, and any third-party valuations are reviewed for reasonableness and compliance with relevant accounting standards.

WASHINGTON STATE OPPORTUNITY SCHOLARSHIP FUND

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 Bond Fund managed by the WSIB. 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. See the Daily Valued Fund audited financial statements for further information.

The commingled equity index funds are invested in publicly traded equity securities and is passively managed to approximate 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 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 financial statements for further information).

The following table presents fair value measurements at June 30, 2022:

	Fair Value
INVESTMENTS	
INVESTMENTS MEASURED AT NET ASSET VALUE	
Commingled Equity Index Funds	\$ 22,124,367
Commingled Intermediate Credit	55,938,437
Total Investments at Net Asset Value	<u>78,062,804</u>
Total Investments Measured at Fair Value	<u>\$ 78,062,804</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.

WASHINGTON STATE OPPORTUNITY SCHOLARSHIP FUND

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 the 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 Bond Fund, with a benchmark of the Bloomberg U.S. Intermediate Credit Index. In addition, the 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	\$ 55,938,437	\$ 5,604,683	\$ 30,831,523	\$ 18,975,900	\$ 526,331	4.3	Schedule 2
Investments Not Required to be Categorized							
Commingled Equity Index Funds	22,124,367						
Short-Term Investment Funds	13,008,117						
Total Investments Not Categorized	35,132,484						
Total Investments	\$ 91,070,921						

* Duration excludes cash and cash equivalents

SCHEDULE 2

ADDITIONAL CREDIT RATING DISCLOSURES

Moody's Equivalent Credit Rating	Commingled Intermediate Credit	
	Market Value	
Aaa	\$	1,438,688
Aa1		1,985,375
Aa2		849,778
Aa3		2,448,243
A1		7,749,510
A2		7,382,724
A3		9,364,955
Baa1		7,185,784
Baa2		10,599,514
Baa3		5,829,425
Ba1 and Lower		1,104,441
Total	\$	55,938,437

WASHINGTON STATE OPPORTUNITY SCHOLARSHIP FUND

SCHEDULE 3

FOREIGN CURRENCY EXPOSURE

Foreign Currency Denomination	Equity Securities	Percent of Total Investments
AUSTRALIAN DOLLAR	\$ 453,509	0.5%
BRAZILIAN REAL	129,210	0.1%
CANADIAN DOLLAR	710,291	0.8%
SWISS FRANC	536,092	0.6%
YUAN RENMINBI	128,246	0.1%
DANISH KRONE	146,107	0.2%
EURO CURRENCY	1,627,278	1.9%
POUND STERLING	892,361	1.0%
HONG KONG DOLLAR	793,018	0.9%
INDIAN RUPEE	367,310	0.4%
JAPANESE YEN	1,304,215	1.4%
SAUDI RIYAL	106,658	0.1%
SOUTH KOREAN WON	302,927	0.3%
SWEDISH KRONA	205,996	0.2%
NEW TAIWAN DOLLAR	395,357	0.4%
OTHER MISCELLANEOUS CURRENCIES	652,607	0.7%
Total Foreign Currency Exposure	\$ 8,751,182	9.6%



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 Washington State Opportunity Scholarship Fund as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Washington State Opportunity Scholarship Fund's basic financial statements, and have issued our report thereon dated September 20, 2022.

REPORT ON 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.

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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 or significant deficiencies may exist that have not been identified.

REPORT ON 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, contracts, and grant agreements, 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Boise, Idaho

September 20, 2022

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DAILY VALUED FUNDS



INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF THE WASHINGTON STATE INVESTMENT BOARD

OLYMPIA, WASHINGTON

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the 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, 2022, and the related statement of changes in fiduciary net investment position for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying 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, 2022, 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.

BASIS FOR OPINION

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Daily Valued Funds and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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RESPONSIBILITIES OF MANAGEMENT FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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 RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Daily Valued Funds' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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

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information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2022 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 grant agreements 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.

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 20, 2022

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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, 2022. 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, 2022. The following table compares the fiduciary net investment position of each major investment classification at June 30, 2022, with those at June 30, 2021. 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

Fiscal Year 2022 began with concerns around supply chain disruptions, rising inflation, and a peak in the rate of economic growth. Increased regulation of the Chinese technology sector and fears around the potential default of a large Chinese property developer hampered emerging market returns. In the wake of the pullback in the Chinese equity market, the Morgan Stanley Capital International (MSCI) Emerging Markets (EM) Investable Market Index (IMI) was down 7.4 percent, while the MSCI Developed Market World IMI returned (0.2) percent for the quarter. The U.S. Federal Reserve (Fed) announced their plan to slow the pace of its bond buying program, also known as tapering. Tapering is a controlled way to phase out quantitative easing while managing the continued economic recovery. The indication of tapering from the Fed in September caused an increase in the U.S. 10-year Treasury rate by 0.2 percent for the month to finish the quarter at 1.5 percent.

In the second quarter of Fiscal Year 2022, the emergence of the highly infectious Omicron variant caused an increase in equity market volatility. Markets rebounded quickly after knowledge that the new variant was not as potent as the previous Delta variant. Strong quarterly corporate earnings and potential for further growth in Fiscal Year 2022 outweighed the risk factors in the second quarter. The Fed voted to maintain the current federal funds target rate and announced plans to accelerate the tapering of asset purchases from \$15.0 billion to \$30.0 billion per month, beginning in January 2022. The MSCI Developed Market World IMI returned 7.1 percent for the quarter. Emerging market countries underperformed the developed markets in the second quarter. Global equity markets rallied to end the second quarter with strong positive returns for the third consecutive calendar year.

Global markets were faced with a myriad of concerns in the third quarter of the fiscal year. Russia's invasion of Ukraine caused a major global shock and the markets reacted, with equities declining and bond prices falling. Commodity prices continued to increase, which contributed to a further surge in inflation. Increased price pressure, coupled with the economic impact of the invasion, presented a challenge for global central banks to slow down inflation while supporting economic growth. The MSCI Developed Market World IMI returned (5.3) percent and the MSCI Emerging Markets IMI returned (6.7) percent in the

DAILY VALUED FUNDS

third quarter. In a much-anticipated action, the Fed raised the target rate by 0.25 percent on March 16th and made it clear that further increases will follow. Interest rates increased dramatically, with the U.S. 10-year Treasury rate jumping 0.8 percent to end the quarter at 2.3 percent, the highest rate since April 2019 at 2.5 percent.

The close of the fiscal year marked the end to another very difficult quarter for global equity markets in a year already full of challenges. Developed market equities returned their worst performance for the fiscal year in over 50 years. The ongoing conflict in Ukraine, central banks tightening monetary policy, and rapidly rising inflation worldwide contributed to negative investor sentiment. Headline U.S. inflation reported in June continued to be elevated through year end at 8.6 percent, the highest it has been since 1981. In an attempt to reduce inflation without causing a recession, the Fed raised interest rates twice during the quarter. The Fed increased the target rate 0.50 percent in May and 0.75 percent in June to bring the target rate range to 1.5 to 1.75 percent. The rate hike in June was the first increase of this magnitude since November 1994. The Fed rate hikes caused U.S. interest rates to significantly increase in the last quarter, with the U.S. 10-year Treasury rate climbing 0.7 percent to end the fiscal year at 3.0 percent. The MSCI Developed Market World IMI returned (16.3) percent for the quarter, and (15.3) percent for the fiscal year. Emerging Markets slightly outperformed developed markets for the quarter. The MSCI Emerging Markets IMI returned (12.1) percent for the quarter, and (24.8) percent during the last one-year period. Credit spreads widened along with the selloff in global equities. Investment grade spreads widened 39 basis points in the quarter to 155 basis points, which was 75 basis points higher for the fiscal year. High yield spreads widened 244 basis points in the quarter to 569 basis points, which was 301 basis points higher for the fiscal year.

As shown in the following table, the fiduciary net investment position of the DVF decreased by \$352.8 million during the fiscal year ended June 30, 2022. Net withdrawals to the DVF by participants during the year decreased the fiduciary net investment position by \$145.9 million. Realized and unrealized losses of \$290.6 million was offset by \$84.5 million of interest income and were the main drivers of the net investment loss of \$206.9 million during the fiscal year.

	Summarized Change in Fiduciary Net Investment Position and Returns by Asset Class									
	Fiscal Year End June 30, 2022				Fiscal Year End June 30, 2021				Year Over Year Change	
	Bond Fund (*)	Savings Pool (*)	TIPS Fund (*)	Total	Bond Fund (*)	Savings Pool (*)	TIPS Fund (*)	Total	Increase (Decrease)	Percent Change
Beginning 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%
Investment Income:										
Interest, Dividends, and Other Investment Income	61,732,543	20,516,050	2,251,626	84,500,219	64,860,067	21,703,111	1,897,697	88,460,875	(3,960,656)	-4.5%
Realized and Unrealized Gains (Losses)	(268,550,872)	4,672	(22,083,542)	(290,629,742)	(13,859,521)	1,927	23,756,862	9,899,268	(300,529,010)	-3035.9%
Less: Investment Expenses	(512,775)	(182,915)	(45,873)	(741,563)	(307,446)	(229,505)	(53,688)	(590,639)	150,924	25.6%
Net Investment Income (Loss)	(207,331,104)	20,337,807	(19,877,789)	(206,871,086)	50,693,100	21,475,533	25,600,871	97,769,504	(304,640,590)	-311.6%
Net Amount Contributed (Withdrawn)	(111,055,989)	33,391,030	(68,222,400)	(145,887,359)	149,838,444	(47,620,646)	76,639,395	178,857,193	(324,744,552)	-181.6%
Ending Fiduciary Net Investment Position (**)	\$ 2,195,648,805	\$ 998,297,955	\$ 396,378,065	\$ 3,590,324,825	\$ 2,514,035,898	\$ 944,569,118	\$ 484,478,254	\$ 3,943,083,270	\$ (352,758,445)	-8.9%
Increase (Decrease) in Fiduciary Net Investment Position	\$ (318,387,093)	\$ 53,728,837	\$ (88,100,189)	\$ (352,758,445)						
Percent Change in Fiduciary Net Investment Position	-12.7%	5.7%	-18.2%	-8.9%						
One Year Time Weighted Return - June 30, 2022	-8.6%	2.2%	-5.2%	N/A						
One Year Time Weighted Return - June 30, 2021	2.2%	2.2%	6.2%	N/A						

(*) 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

DAILY VALUED FUNDS

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

Net investment income decreased by 311.6 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 returned (8.6) percent compared to the previous fiscal year return of 2.2 percent, resulting in an increase in net realized and unrealized losses of \$254.7 million year over year. The Treasury Inflation Protected Security (TIPS) Fund returned (5.2) percent compared to the previous fiscal year return of 6.2 percent, resulting in an increase in net realized and unrealized losses of \$45.8 million year over year. The Savings Pool returns remained relatively unchanged over the fiscal year. As Guaranteed Insurance Contracts (GICs) matured, the WSIB reinvested the proceeds in securities with slightly higher interest rates. Approximately \$225.7 million of GICs matured during the current fiscal year, with an average interest rate of 2.5 percent. Proceeds from these maturities were reinvested in slightly higher interest rate contracts, with an average interest rate of 2.7 percent.

Performance of the Bond Fund for the fiscal year ended June 30, 2022, was (8.6) percent, which slightly outperformed its benchmark, the Bloomberg U.S. Intermediate Credit Index, which returned (9.0) percent. The fund maintained a shorter maturity profile than its benchmark which contributed to the outperformance. During the current fiscal year, interest rates rose substantially, causing bond prices to decrease, which negatively impacted overall bond market returns. Credit spreads widened substantially during the current fiscal year, which further contributed to negative bond market returns. The combination of rising interest rates and the widening credit spreads caused the bond market returns to be significantly lower than the previous year. Performance for the TIPS Fund was (5.2) percent for the year, which slightly underperformed its benchmark return, the Bloomberg U.S. Treasury Inflation Protected Securities Index, of (5.1) percent. The significant decrease in the TIPS Fund return from the previous fiscal year was due to a combination of the rising rate environment and inflation expectations declining in the last quarter of the fiscal year.

Net contributions and withdrawals from the DVF decreased \$324.7 million during the current fiscal year as compared to the prior fiscal year. Net withdrawals from the Bond Fund increased \$260.9 million while net withdrawals from the TIPS Fund increased \$144.9 million over the previous year. Net contributions to the Savings Pool increased by \$81.0 million compared to the previous fiscal year.

In the current fiscal year, the net withdrawals from the Bond Fund were offset by a contribution of \$75.5 million from the Volunteer Firefighters' and Reserve Officers' Relief Pension Fund (VFFRO). This was the result of a new investment policy. See the Retirement Funds audited financial statements for additional information.

All three DVFs include participants from the self-directed retirement options or are included as part of the overall Retirement Strategy Fund (RSF) investment glide paths 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. Both the Bond Fund and TIPS Fund are underlying components of each individual RSF glide path. The contributions and withdrawals within these options are impacted by various factors, which include investor confidence, asset allocation within each RSF glide path, and market volatility. During the current fiscal year, the RSF manager withdrew \$194.8 million from the Bond Fund and \$67.8 million from the TIPS fund, and the proceeds were reinvested in the Commingled Trust Fund (CTF), a new component of the glide path effective October 2021. See the Retirement Funds audited financial statements for more information.

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, 2022

SEE NOTES TO FINANCIAL STATEMENTS

	Bond Fund	Savings Pool	TIPS Fund	Total	Percent of Total
ASSETS					
Investments					
CASH AND CASH EQUIVALENTS	\$ 81,243,824	\$ 99,625,213	\$ 3,352,211	\$ 184,221,248	5.1%
DEBT SECURITIES					
Corporate Bonds	1,825,001,425	-	-	1,825,001,425	
U.S. Government and Agency Securities	-	-	392,063,567	392,063,567	
Guaranteed Insurance Contracts	-	898,342,681	-	898,342,681	
Foreign Government and Agencies	277,954,200	-	-	277,954,200	
Total Debt Securities	2,102,955,625	898,342,681	392,063,567	3,393,361,873	94.9%
Total Investments	2,184,199,449	997,967,894	395,415,778	3,577,583,121	100.0%
Investment Earnings Receivable	16,479,522	350,925	963,325	17,793,772	
Total Assets	2,200,678,971	998,318,819	396,379,103	3,595,376,893	
LIABILITIES					
Accounts Payable	39,116	20,864	1,038	61,018	
Payable for Investments Purchased	4,991,050	-	-	4,991,050	
Total Liabilities	5,030,166	20,864	1,038	5,052,068	
FIDUCIARY NET INVESTMENT POSITION	\$ 2,195,648,805	\$ 998,297,955	\$ 396,378,065	\$ 3,590,324,825	

DAILY VALUED FUNDS

DAILY VALUED FUNDS (DVF) STATEMENT OF CHANGES IN FIDUCIARY NET INVESTMENT POSITION YEAR ENDED JUNE 30, 2022

SEE NOTES TO FINANCIAL STATEMENTS

	Bond Fund	Savings Pool	TIPS Fund	Total
Net Investment Income				
Investment Income				
Interest, Dividends and Other Investment Income	\$ 61,732,543	\$ 20,516,050	\$ 2,251,626	\$ 84,500,219
Net Realized and Unrealized Gains (Losses)	(268,550,872)	4,672	(22,083,542)	(290,629,742)
Less:				
Investment Expenses	(512,775)	(182,915)	(45,873)	(741,563)
Net Investment Income (Loss)	(207,331,104)	20,337,807	(19,877,789)	(206,871,086)
Net Amount Contributed (Withdrawn)	(111,055,989)	33,391,030	(68,222,400)	(145,887,359)
Increase (Decrease) in Fiduciary Net Investment Position	(318,387,093)	53,728,837	(88,100,189)	(352,758,445)
FIDUCIARY NET INVESTMENT POSITION, JUNE 30, 2021	2,514,035,898	944,569,118	484,478,254	3,943,083,270
FIDUCIARY NET INVESTMENT POSITION, JUNE 30, 2022	\$ 2,195,648,805	\$ 998,297,955	\$ 396,378,065	\$ 3,590,324,825

NOTES TO FINANCIAL STATEMENTS

NOTE 1. DESCRIPTION OF FUNDS AND SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF FUNDS

The DVFs 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 GICs and is available for investment by the Deferred Compensation Program and the Judicial Retirement Account. The GICs are valued at cost. The 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	10.9%	99.8%	N/A
Judicial Retirement Account	Trace	0.2%	N/A
Washington State Retirement System Defined Contribution Participants	17.3%	N/A	N/A
Developmental Disabilities Endowment Trust Fund	0.4%	N/A	N/A
Guaranteed Education Tuition Program	41.5%	N/A	N/A
VFFRO	3.2%	N/A	N/A
Washington State Opportunity Scholarship Fund	2.6%	N/A	N/A
Alliance Bernstein Retirement Strategy Funds	24.1%	N/A	100%

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, 2022, 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 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 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, 2022. 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, 2022, 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, 2022.

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, 2022, 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 SSC 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, 2022.

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. The responsibilities of SSC include 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 2022, 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 2022, the DVFs incurred no losses resulting from a default by either the borrowers or the securities lending agents.

NOTE 5. FAIR VALUE

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

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

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

The DVFs receive fair value prices for debt securities directly from their custodian bank, SSC. 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 more than ten days are sent to the appropriate vendor for review and verification.

The following table presents fair value measurements as of June 30, 2022:

	Fair Value	Fair Value Measurements Using:		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
INVESTMENTS				
DEBT SECURITIES				
Corporate Bonds	\$ 1,825,001,425	\$ -	\$ 1,825,001,425	\$ -
U.S. and Foreign Government and Agency Securities	670,017,767	-	670,017,767	-
Total Debt Securities	\$ 2,495,019,192	\$ -	\$ 2,495,019,192	\$ -
Total Investments Measured at Fair Value	\$ 2,495,019,192			

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 consider 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 Bond Fund is actively managed to meet or exceed the return of the Bloomberg 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 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 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 Savings Pool is to ensure the preservation 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 Savings Pool will attempt to earn the highest return possible consistent with maintaining the first two objectives of safety of principal and liquidity. In general, the Savings Pool 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 include 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 U.S. Treasury Inflation Protected Securities Index. Permissible investments include all U.S. TIPS and cash. The durations of the portfolio shall not exceed plus or minus 25 percent of the Bloomberg Capital U.S. Treasury Inflation Protected Securities Index, other than during short periods of time while managing stakeholder cash flows.

DAILY VALUED FUNDS

SCHEDULE 1

SCHEDULE OF MATURITIES AND CREDIT RATINGS

Investment Type	Total Fair Value	Maturity				Effective Duration *	Credit Rating
		Less than 1 year	1-5 years	6-10 years	More than 10 years		
Corporate Bonds	\$ 1,825,001,425	\$ 117,300,365	\$ 1,055,421,210	\$ 639,883,850	\$ 12,396,000	4.3	Schedule 2
U.S. Government and Agency Securities	392,063,567	-	234,580,692	107,914,992	49,567,883	6.8	Aaa
Guaranteed Insurance Contracts	898,342,681	199,200,675	699,142,006	-	-	N/A	Not Rated
Foreign Government and Agencies	277,954,200	9,996,800	154,751,950	104,942,350	8,263,100	4.5	Schedule 2
	3,393,361,873	\$ 326,497,840	\$ 2,143,895,858	\$ 852,741,192	\$ 70,226,983		
Investments Not Required to be Categorized							
Cash and Cash Equivalents	184,221,248						
Total Investments Not Categorized	184,221,248						
Total Investments	\$ 3,577,583,121						

* Duration excludes cash and cash equivalents

SCHEDULE 2

ADDITIONAL CREDIT RATING DISCLOSURES

Moody's Equivalent Credit Rating	Corporate Bonds	Foreign Government and Agency Securities
Aaa	\$ 39,651,499	\$ 14,434,700
Aa1	28,885,900	45,752,500
Aa2	18,594,950	13,351,700
Aa3	67,903,950	24,135,550
A1	206,018,650	85,317,300
A2	244,126,780	33,420,150
A3	352,067,100	-
Baa1	270,143,120	-
Baa2	362,791,590	35,687,700
Baa3	193,297,410	25,854,600
Ba1 or Lower	41,520,476	-
Total	\$ 1,825,001,425	\$ 277,954,200



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, 2022, and the related notes to the financial statements, which collectively comprise the Daily Valued Funds' basic financial statements, and have issued our report thereon dated September 20, 2022.

REPORT ON 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.

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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 or significant deficiencies may exist that have not been identified.

REPORT ON 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, contracts, and grant agreements, 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 entity'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 entity'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 20, 2022

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