



WSIB Update



**Gary Bruebaker
Chief Investment Officer
November 2013**



Overview



- ❑ **WSIB Investment Responsibility**
- ❑ **Board Oversight**
- ❑ **Commingled Trust Fund (CTF) Performance and Market Values**
- ❑ **Source of WSIB Excellent Performance**
- ❑ **What Risks/Threats We Face**
- ❑ **CTF Well Diversified**
- ❑ **Conclusion**



Our Mission



The WSIB invests with integrity, prudence, and skill to meet or exceed the financial objectives of those we serve including members and beneficiaries of:

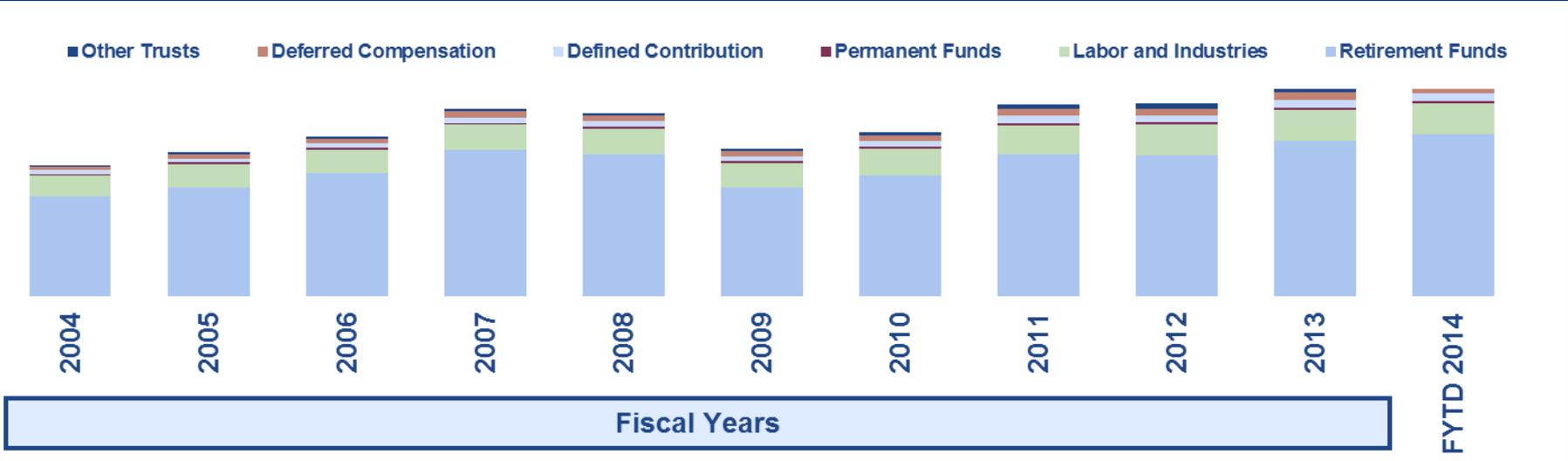
- ▣ 17 retirement plans for public employees, teachers, school employees, law enforcement officers, firefighters and judges
- ▣ Several other important public funds that help support Washington's industrial insurance program, colleges and universities, and developmental disability programs



Manage Key State Assets

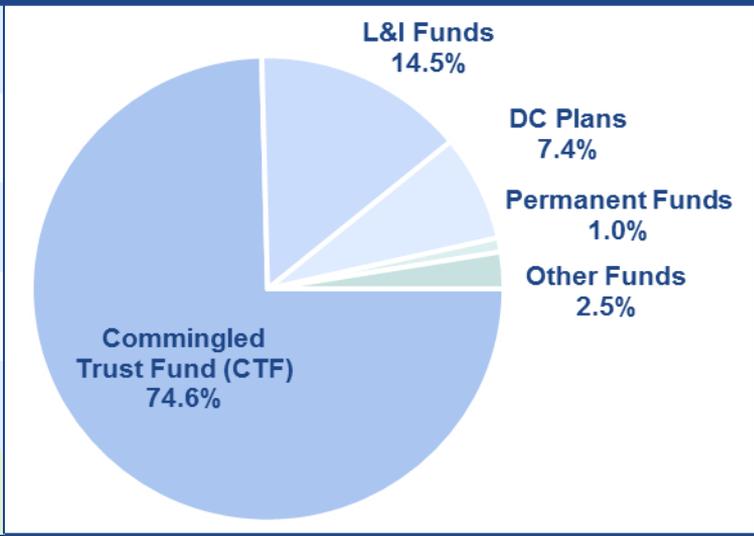
September 30, 2013

Past 10 Fiscal Years



Market Values and Allocation (in billions)

Commingled Trust Fund (CTF)	\$70.6	74.6%
L&I Funds	\$13.7	14.5%
DC Plans	\$7.0	7.4%
Permanent Funds	\$0.9	1.0%
Other Funds	\$2.4	2.5%
Total Assets Under Management	\$94.6	





Impeccable Integrity



The Board has adopted rigorous code of conduct and conflict of interest policies to ensure that its actions meet the most stringent standards

Integrity is part of the WSIB's DNA and it demands excellence of an experienced and well-governed Board of Trustees, staff, investment managers, and companies in which we invest

Members of the State Investment Board are fiduciaries held to the highest standard of professional conduct for the exclusive benefit of fund beneficiaries



Overseen by an Excellent Board



The 10 voting and 5 non-voting members of the Board are fiduciaries whose mission is to manage investments for retirement and other public funds for the exclusive benefit of beneficiaries

	Appointment Authority	Name	Position
10 Voting	Ex-Officio	Jim McIntire, Chair	State Treasurer
		Marcie Frost, Vice Chair	Director, DRS
		Joel Sacks	Director, Labor & Industries
	Senate President	Sharon Nelson	State Senator
	House Speaker	Sharon Tomiko Santos	State Representative
	Governor	Natasha Williams	Active Member, PERS
		George Masten	Retired Member, PERS
		Kelly Fox	Active Member, LEOFF
	Superintendent of Public Instruction	Arlista D. Holman	Active Member, SERS
		Mike Ragan	Active Member, TRS
Investment Professionals	Selected by the Board	Robert Nakahara	
		Jeffrey Seely	
		David Nierenberg	
		William A. Longbrake	
		Richard Muhlebach	

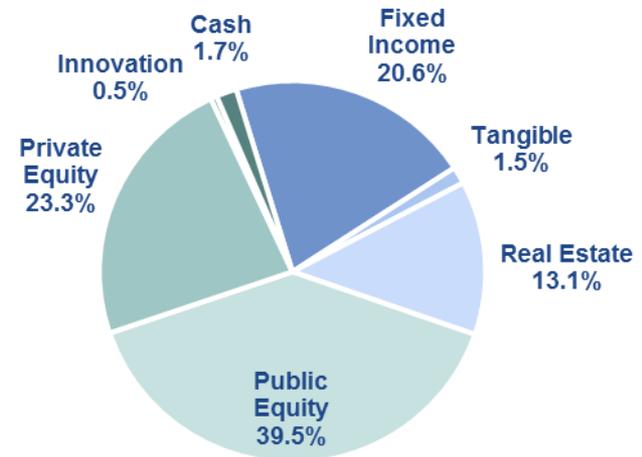
Deliver Excellent Performance

Commingled Trust Fund Performance & Market Values – September 30, 2013

Historical Market Value (billions)



Actual Allocation



Historical Fund Returns



Market Values and Returns

Commingled Trust Fund (CTF) Market Values and Returns

	Market Value (000s)	1 Year	3 Year	5 Year	10 Year
Total CTF	\$70,553,386,422	12.57%	10.20%	6.49%	8.41%
Fixed Income	\$14,499,964,971	-1.71%	3.24%	7.07%	5.58%
Tangibles	\$1,025,442,613	0.32%	3.05%	1.37%	N/A
Real Estate	\$9,209,226,634	13.03%	13.45%	0.81%	9.35%
Public Equity	\$27,840,025,921	19.39%	11.19%	8.44%	8.05%
Private Equity	\$16,410,498,256	16.54%	13.79%	6.81%	13.79%
Innovation	\$369,037,043	50.03%	6.21%	N/A	N/A
Cash	\$1,199,190,983	0.14%	0.15%	0.28%	1.77%

Source of WSIB Excellent Performance



- ❑ One of the most respected institutional investors in the nation: We manage more than \$94 billion in 33 funds, invested in 77 countries, on 6 continents in 49 currencies
- ❑ Guided by an engaged and skillful Board that has made good governance a high priority, demonstrates respect for one another and staff, has committed to continually improving its investment decision making process, and conducts itself in a fully transparent and ethical manner
- ❑ Served by a highly professional staff that has been enhanced over the last decade by drawing from the best and brightest from both the private sector and from within state service who come to the WSIB because they believe in us as a destination employer
- ❑ Served by the most sought after investment managers in the world because WSIB is a knowledgeable, fair, and consistent partner and our reputation enhances their position in the marketplace
- ❑ Aided by cutting edge technology and analytical services, as well as a robust and proprietary risk framework that gives us insights into our portfolio that, when deployed correctly, will provide a significant competitive advantage over our peers
- ❑ Enjoy a terrific reputation; supported by beneficiaries who believe in the WSIB brand and respected by the Legislature for our professional investment management services



What Risks/Threats We Face



Going Forward, Value Will Be Tougher to Deliver

- ❑ Challenging capital markets that may make earning rates of returns at the level we desire not possible
 - ❑ Raises the important question of where the source of value creation will come from in the future and how will we identify those sources
- ❑ Global strategy brings with it geopolitical risks that often trump market fundamentals
 - ❑ We evaluate investments all over the world based on return/risk profiles
- ❑ Will the fiscal and monetary policy responses to the current fiscal crisis breed the next global crisis and, if so, how do we prepare
 - ❑ Cheap credit
 - ❑ Increased debt levels in developed and emerging markets

What Risks/Threats We Face



Going Forward, Value Will Be Tougher to Deliver (Continued)

- ❑ **Competition for partners, deals, and staff in private markets, which has been our historical competitive advantage, has intensified with the rise of sovereign wealth funds, emerging market pension funds, and family wealth offices**
 - ❑ **Drives up prices and fees and salaries for public fund staff with expertise in private markets**
 - ❑ **Valuations unsustainable in crowded markets**
- ❑ **Size of capital we need to deploy becomes a hindrance with limited opportunity set in certain desirable strategies**
 - ❑ **Small and mid-cap equities**
 - ❑ **Small and mid-cap private equity**
 - ❑ **Small to mid opportunistic real estate**

Must reach deeper in these challenging markets to achieve the desired return

What Risks/Threats We Face

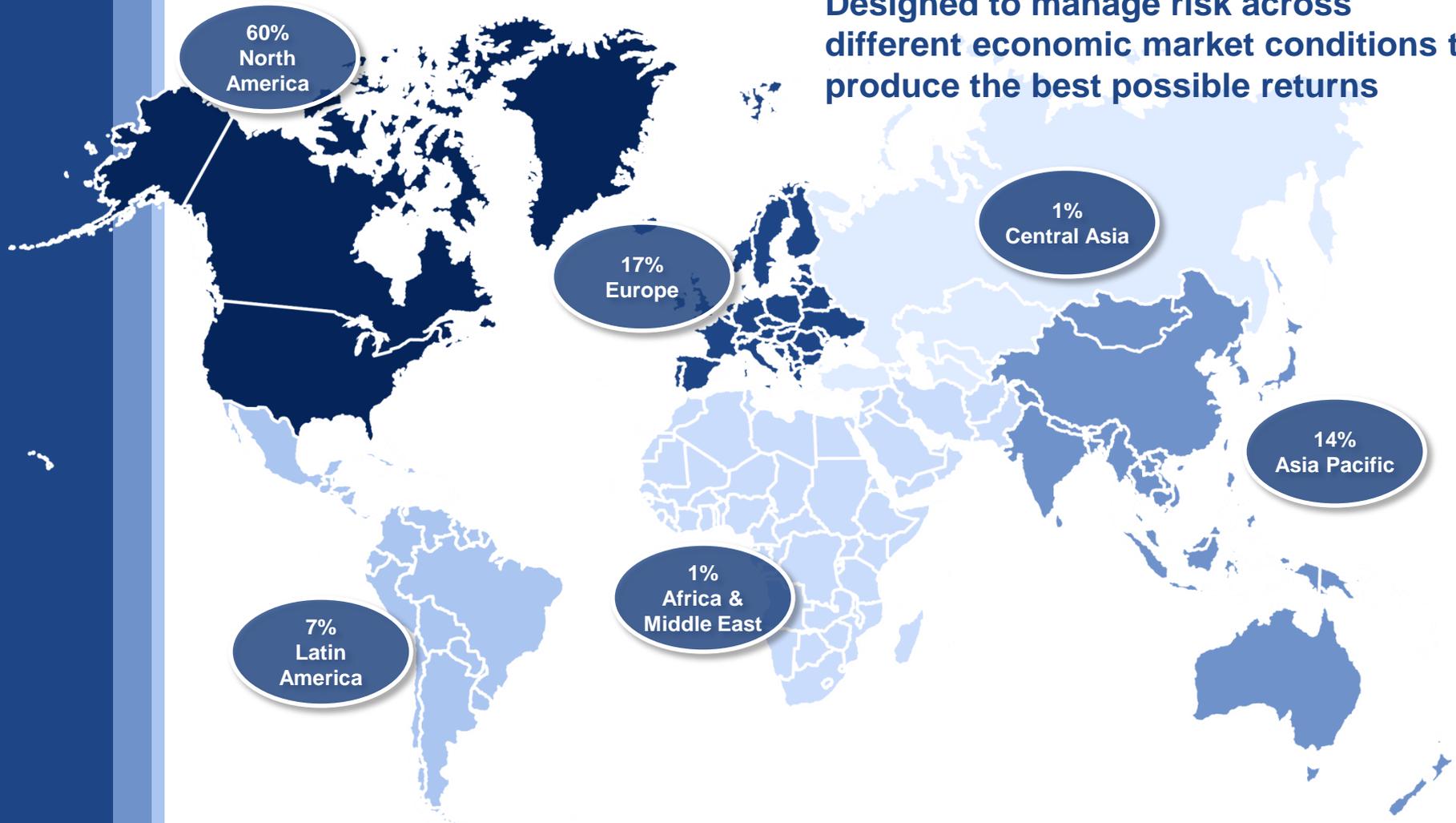


Support – We Can't Take it For Granted

- ▣ Turnover in political leadership – need for ongoing investment in educating Legislature and executive branch
 - ▣ And tough to get anyone's attention during transition
- ▣ Ongoing pressure for socially motivated investing/divesting
 - ▣ Divestiture of fossil fuels
 - ▣ Divesting gun manufacturers
 - ▣ In-state investing
- ▣ Spillover from poor pension fund governance and investment fund performance in other states continues to create a challenge for differentiating the WSIB
- ▣ In a period of slow growth for the state with accompanying budget constraints on the general fund, difficult for the WSIB not to stand out

CTF Well Diversified – Geographic Diversification

Designed to manage risk across different economic market conditions to produce the best possible returns



Despite Challenges – WSIB Still Performing Well



8.72 percent – CTF rate of return since inception (1992); The WSIB’s long-term investment strategy has helped make Washington’s public pension system one of the four best funded in the nation

Roughly, 84 cents of every dollar needed to pay benefits is generated by our investment returns

All expenses of the WSIB are funded from the earnings of the funds managed by the WSIB at no cost to state taxpayers

International benchmarking studies have consistently ranked the WSIB in the top number of low cost and high performing institutional investors

Conclusion



Being a good investment manager is like walking up a down escalator...if you aren't moving forward, you are losing ground

Challenges going forward:

- ▣ **Managing investment return expectations**
- ▣ **Maintaining required focus and discipline to fulfill fiduciary responsibilities**
- ▣ **Building and securing support for adequate resources to ensure satisfactory results and success well into the future**