

Washington State Investment Board

Washington State Investment Board Update



**Theresa Whitmarsh, Executive Director
Washington State Investment Board
December 16, 2014**

U.S. Pension System in the News Constantly – And Not for the Right Reasons

May 7, 2014

THE HUFFINGTON POST

Pension Fund Scandal

Pension Fund Scandal Shows That Corruption Still Pays Well in New York

John W. Moscow | Posted 08.23.2011 | New York

Read More: David Logisoi, Hank Morris Pension Probe, Ray Harding, Hank Morris Trial, Pension Fund Scandal, New York State Pension Fund, Hank Morris, Alan Hevesi Sentenced, Alan Hevesi, Alan Hevesi Pension Fraud, Elliott Brody, Corruption, Brody Bribes, Bribes, New York News

In the NY pension fund scandal, we are at risk of seeing the principle of "equal justice for all" being savaged as people who engaged in really bad behavior are to be getting off with remarkably lenient sentences.

Chicago Tribune NEWS

Atlanta Schools' bad pension idea

May 01, 2014 | James Saft | Reuters

Atlanta Public Schools is considering selling up to \$540 million of bonds to

There Is Power in a Union: The Latest Chicago Pension Scandal

State-union relations and public pensions are on the political front burner... and a Tribune

ers drawing substantial city pensions will add

The New York Times

Five Officials in San Diego Are Indicted Over Pensions

By **JOHN M. BRODER**

Published: January 7, 2006

LOS ANGELES, Jan. 6 - San Diego's legal and financial troubles deepened on Friday as a federal grand jury handed up fraud and conspiracy indictments against five current and former officials of the city's pension system.

WSIB Has Scale Advantage – Washington State, County, and City Employees Covered Under One Pension Roof

- DB plans and hybrid DB/DC plans commingled into one investment fund run by the Washington State Investment Board (WSIB)

Defined Benefit Plans (as of September 30, 2014)	Market Value
Public Employees' Retirement System Plan 1 (PERS)	\$7,658,609,409
Public Employees' Retirement System Plan 2/3	\$29,027,195,195
Teachers' Retirement System Plan 1 (TRS)	\$6,227,963,768
Teachers' Retirement System Plan 2/3	\$13,801,598,840
Volunteer Fire Fighters' Relief & Pension Fund (VOLFF)	\$184,008,387
Washington State Patrol Retirement System Plan 1 (WSPRS)	\$1,043,300,416
Washington State Patrol Retirement System Plan 2	\$29,862,149
Law Enforcement Officers' & Fire Fighters' Plan 1 (LEOFF)	\$5,550,301,214
Law Enforcement Officers' & Fire Fighters' Plan 2	\$9,140,899,729
School Employees' Retirement System Plan 2/3 (SERS)	\$4,994,489,426
Public Safety Employees' Retirement System Plan 2 (PSERS)	\$302,162,359
Higher Education Retirement Plan Supplemental Benefit Fund	\$22,033,277
Total	\$77,982,424,171

Defined Contribution Plans	Market Value
Deferred Compensation Program (DCP)	\$3,506,298,431
Judicial Retirement Account (JRA)	\$12,678,475
Total	\$3,518,976,906

Total Assets Under Management – September 30, 2014

Past 10 Fiscal Years

Commingled Trust Fund (CTF)	\$78.0	75.3%
L&I Funds	\$14.5	14.0%
DC Plans	\$7.5	7.3%
Permanent Funds	\$1.0	0.9%
Other Funds	\$2.6	2.5%
Total Assets Under Management	\$103.6	



With Scale Comes Cost Efficiency



WSIB's total investment cost is 46 basis points (bps) which is considerably less than peers

WSIB operates its investment program with fewer staff than expected

- WSIB's cost per FTE is well below the global and U.S. peer medians



Strong Governance Structure Ensures Adequate Oversight



Board comprised of 15 members

- 10 voting members drawn from a diverse group of system owners
- 5 non-voting investment experts selected by the voting members

90 professional staff

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



Board Guided by Fundamental Policies Set in Statute



“The Board shall establish investment policies and procedures designed exclusively to maximize return at a prudent level of risk.” (RCW 43.33A.110)

“The State Investment Board shall 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.” (RCW 43.33A.140)

“The Board shall consider investments not in isolation, but in the context of the investment of the particular fund as a whole and as part of an overall investment strategy, which should incorporate risk and return objectives reasonably suited for that fund.” (RCW 43.33A.140)

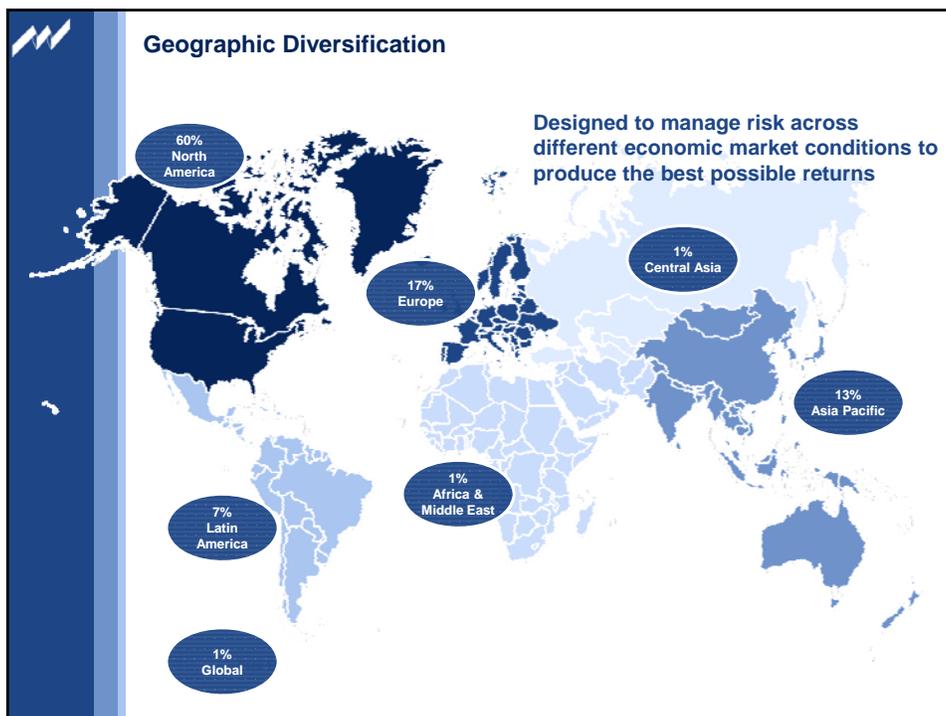


WSIB has a Global Perspective



WSIB manages investments in:

- ▣ 33 different funds
- ▣ 74 different countries
- ▣ Across 6 continents
 - ▣ 49 currencies
 - ▣ Over 12,000 investment holdings



History of Investing Innovation

WSIB past success has been the result of being:

- ▣ Ahead of the market
 - ▣ Private Equity
 - ▣ Global
 - ▣ Emerging and frontier markets
- ▣ Willing to be different
 - ▣ Real estate operating company (REOC) strategy
 - ▣ Tangible Assets
 - ▣ Fixed Income – not benchmark driven
- ▣ Disciplined
 - ▣ Stay away from strategies that do not fit (hedge funds)
 - ▣ Walk away from transactions with unacceptable terms and/or condition
 - ▣ Stayed with asset allocation after crisis while others de-risked
- ▣ Long time horizon allows WSIB to withstand interim volatility

Long-Term Investment Policy Expects Volatility

WSIB uses a 15-20 year horizon for investing

- WSIB does not need to strictly match pension liabilities with the short-term ups and downs of the market

A long time horizon allows opportunities to take more risk

- Higher-risk portfolios have more volatility in annual returns, but can achieve higher returns over the long term – this means lower pension contribution rates over the long term
- Lower-risk portfolios have lower volatility in returns, but expected returns are less – this means more of long-term pension costs must be covered by contributions

Source: Office of the State Actuary

Caution for Policy Makers

- While investment returns are volatile in the short-term, benefit policy and funding practices should be consistent over time
- When investment returns exceed expectations, contribution rates have declined and benefits have increased

Estimated Present Value of Liability Increases from Benefit Improvements Compared to Historical Annualized Returns

Year	Estimated Present Value of Liability Increases from Benefit Improvements (Millions)	Annualized 1 Year Returns (%)
1993	\$548	~10%
1994	\$171	~5%
1995	\$936	~20%
1996	\$0	~10%
1997	\$0	~10%
1998	\$790	~10%
1999	\$11	~10%
2000	\$2,297	~10%
2001	\$88	~-5%
2002	\$11	~-5%
2003	\$29	~15%
2004	\$138	~10%
2005	\$97	~10%
2006	\$99	~10%
2007	\$2,487	~10%
2008	\$69	~-20%
2009	\$70	~10%
2010	\$60	~10%

Source: Office of the State Actuary

