



ASSET CLASSES

A diversified weighting of asset classes – also known as asset allocation – is often the most critical driver of long-term investment results.

The WSIB’s asset allocation is a disciplined and strategic array of six primary asset classes – public equity, fixed income, private equity, real estate, tangible assets, and cash. Each asset class (except cash) is described in this section of the website. Our asset allocation is designed to produce strong long-term returns for the members and beneficiaries of the investment program.

By creating a careful diversification of these asset classes and by periodically adjusting this mix according to updated market assumptions and investment objectives, we create portfolios that are purpose-built for the financial objectives of our beneficiaries.

TOTAL ASSETS UNDER MANAGEMENT

\$171.5 billion as of March 31, 2021	
Fixed Income	\$46,643,329,821
Tangibles	\$7,480,168,459
Real Estate	\$22,587,507,010
Public Equity	\$57,824,436,289
Private Equity	\$33,114,248,669
Innovation	\$599,530,275
Cash	\$3,271,037,647

WHAT WE DO – MARKET RISK SPECTRUM

- ⊙ WSIB seeks diversification across the portfolio and within each asset class
- ⊙ Weighting of the asset classes is often the most influential driver of investment results and risk
- ⊙ Weight of each asset class must match return objectives and risk profile

Lower Risk _____ Representative Only, Not to Scale _____ Higher Risk

FIXED INCOME

Treasury Bills Credit Bonds High Yield

TANGIBLE ASSETS

Less Leverage Levered
Income Producing Speculative Construction
Fully Hedged Unhedged

REAL ESTATE

Less Leverage Levered
Developed Markets Emerging Markets
Fully Developed Raw Land

PUBLIC EQUITY

Developed Markets Emerging Markets
Large Cap Small Cap

PRIVATE EQUITY

Mezzanine Debt Large Buyouts Venture Capital

FIXED INCOME

Fixed income investments are managed by an in-house staff at the WSIB, and help provide valuable portfolio diversification and volatility control in contrast to a pure equity portfolio.

These investments may include U.S. treasuries and government agencies, treasury inflation protection securities (TIPS), corporate debt, mortgage-backed securities, collateralized mortgage obligations (CMO), asset-backed securities (ABS) and commercial mortgage backed securities (CMBS).

This asset class is included in the Commingled Trust Fund (CTF), Plan 3 retirement funds, Deferred Compensation Program (DCP) Savings Pool, Labor & Industries, Permanent Funds, GET College Tuition Program, Developmental Disabilities Endowment Fund (DDEF), and Washington State Opportunities Scholarship Fund.

Responsibilities of the fixed income investment team include portfolio management and trading, credit research and analysis, and risk management and database analytics.

In some cases, Board policy or state law determines that some public fund portfolios are permitted to use only fixed income investments due risk constraints or investment objectives. In other cases such as the CTF, fixed income is part of a diversified asset mix.

TANGIBLE ASSETS

The WSIB's tangible asset portfolio invests in non-financial assets with physical substance, that are used in the production or supply of goods and services. The portfolio focuses primarily on four industries: minerals and mining, energy, agriculture, and society essentials. Each has a different return attribute which provides diversification benefits to the overall CTF portfolio.

To manage these investments, the WSIB works with external partnerships that are expected to generate returns that are, 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 annual distributions of income generated by the assets, with the remainder of the return generated by capital appreciation commensurate with inflation.

Tangible assets was established as a separate asset class in 2007 and began implementation in 2008. Over time, the WSIB expects to create a well-diversified, global tangible asset portfolio with a variety of partners spread among the target sectors noted above, each with its own level of investment risks, style, and geographic diversification.

PUBLIC EQUITY

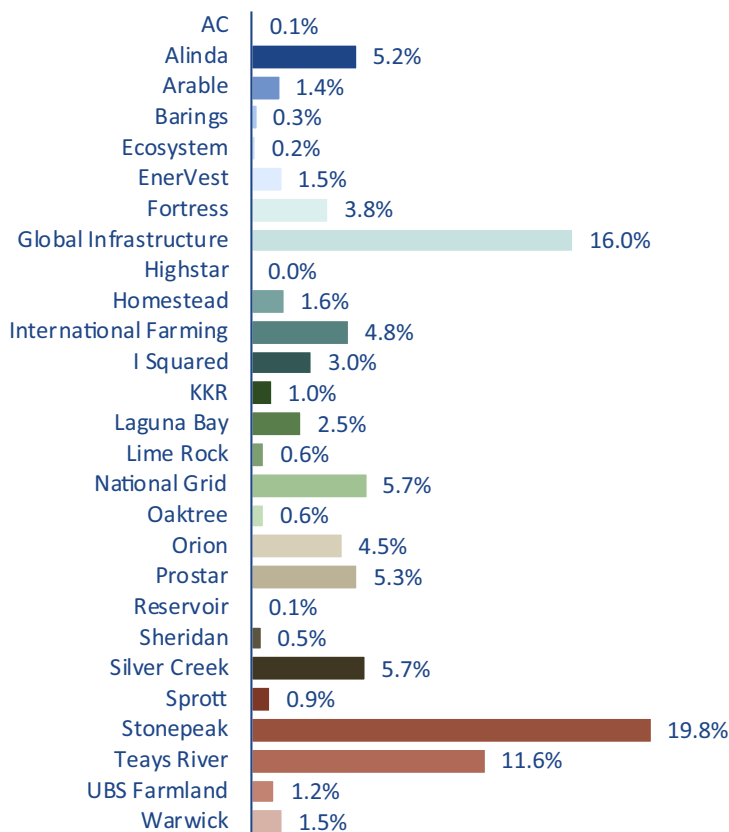
Public equity provides investors with share ownership of publicly traded companies on accessible public markets such as the New York Stock Exchange and NASDAQ. The WSIB invests globally in both U.S. and non-U.S. equity, including emerging markets equity.

Public equity investments represent a significant portion (typically more than 30%) of state retirement funds assets, including the Commingled Trust Fund (CTF) and Washington's self-directed defined contribution plans. Washington state's insurance funds, permanent funds, prepaid college tuition, and other state trust funds also include strategic exposure to public equity investments.

The WSIB's public equity investment team oversees this asset class and is responsible for program structure, policy development, implementation, external investment manager selection and program monitoring.

The public equity program uses a global benchmark, the MSCI ACWI Investable Market Index, reflecting the globalization of capital markets.

TANGIBLE ASSETS PARTNERS AS OF DECEMBER 31, 2020

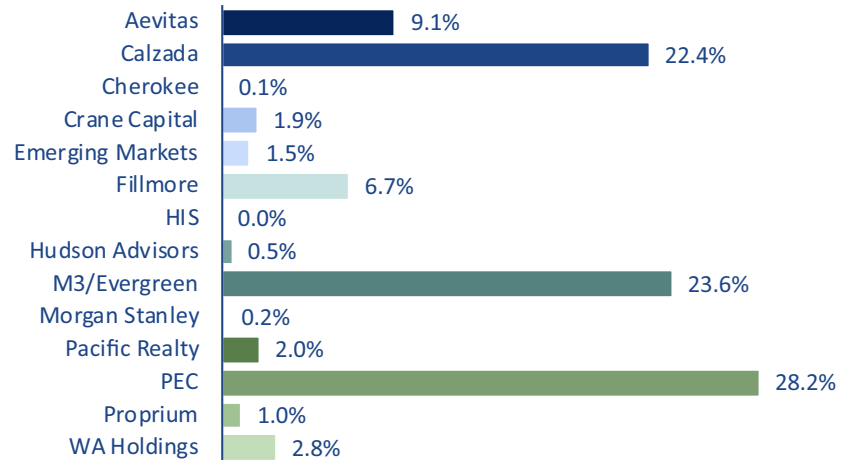


REAL ESTATE

The WSIB's real estate program consists of select external partnerships intended to provide alternative portfolio characteristics when compared with stock and bond investments. The majority of these partnerships invest in high-quality real estate leased to third parties. The combination of steady income generated from lease payments and the potential upside from appreciation combine to generate returns that are expected to fall between the returns for fixed income and public equities.

The real estate portfolio is managed to deliver risk-adjusted returns consistent with the Board's long-term return expectations for the asset class. Many of the WSIB's investment partnerships do not involve co-investment with other financial investors, thereby providing the WSIB with strong governance provisions related to acquisition, liquidation, and participation in annual business plan processes.

REAL ESTATE PARTNERS AS OF DECEMBER 31, 2020



Volatility within the real estate portfolio is minimized through a combination of factors:

- ⊙ Most of WSIB's real estate assets are private market investments, so they are not subject to the potential volatility of the public markets.
- ⊙ Capital is diversified among a variety of partners, each with their own investment strategy and style.
- ⊙ Partnership assets are geographically diversified, including outside the U.S.
- ⊙ Investments are made in a variety of property types to provide further diversification.
- ⊙ WSIB partners invest at different points in the real estate capital structure, as well as at different times in the property life cycle.

PRIVATE EQUITY

Private equity investments include securities that are not listed on a public exchange and are typically more appropriate for large investors with long time horizons. These investments range from initial capital in start-up enterprises to leveraged buyouts of mature corporations. Private equity investments are typically long-term commitments that may last up to 12 years or more. Although they are less liquid and carry a higher risk profile than publicly traded investments, they historically generate higher long-term returns when employed consistently as part of a larger balanced portfolio.

The WSIB's private equity portfolio originated in 1981 and is invested primarily through limited partnerships. In such relationships, a fund's general partner is responsible for overall fund management and for deciding which operating companies will be acquired, restructured or sold. Ultimately the companies are sold in the public market or to strategic or financial buyers, and only then can the true return on investment be accurately measured.

To meet return and plan objectives, the WSIB's private equity portfolio has diversified investments in a broad cross-section of sub-sectors, industries and geographic regions including Washington and other Pacific Northwest states.

Summary of private equity characteristics:

- ⊙ Higher risk characteristics than public markets
- ⊙ Illiquid asset class
- ⊙ Long-term time horizon (partnerships 10-12 years)
- ⊙ Higher return expectations over time