WASHINGTON STATE INVESTMENT BOARD

FORTY-SECOND ANNUAL REPORT

2023

INTRODUCTION

LETTER OF TRANSMITTAL

Over the past year, markets experienced extreme shifts in sentiment. The beginning of Fiscal Year 2023 was filled with turbulence and pessimism as the impacts of inflation and rising interest rates rippled through the global economy. As the calendar turned to 2023, we entered calmer waters. Markets rebounded as inflation slowed, and economic conditions in many developed markets remained robust. Although the last 12 months were choppy, the Commingled Trust Fund (CTF) returned 5.2 percent for the fiscal year ending June 30, 2023.

Still, the course ahead is uncertain. The U.S. Federal Reserve (Fed) and other major central banks continue to raise interest rates aggressively to keep inflation in check. This sharp uptick in rates contributed to the collapse of several U.S. regional banks and significantly increased borrowing costs for businesses and consumers. Geopolitical issues also remain a concern. The war between Russia and Ukraine drags on, and tensions continue to build between the U.S. and China—the world's two largest economies.

Uncertainty sharpens investors' focus on risks, but for those with a long-term view, it also creates opportunities. After more than a decade of yields that plumbed the depths of historical averages, bonds, once again, offer attractive yields. The rapid sea change in central bank policy, which saw interest rates rise at a pace not seen since the hyperinflationary days of the late 1970s, has put a premium on well-run, disciplined businesses with strong balance sheets—particularly those that are adapting well to a quickly changing world.

Climate change is the predominant risk of our age. Our warming planet is beset by rampant wildfires, devastating storms, floods, and longer, more intense heat waves. Virtually none of the Washington State Investment Board's (WSIB) investments will be immune to the accelerating impacts of climate change. It's why we mapped out an agency-wide Climate Blueprint last year, providing our Board and staff with a solid foundation for addressing climate-related investment considerations in the years ahead.

Washington's pension system consistently ranks among the top funds in the country. It is a credit to the WSIB's unyielding commitment to our mission: to invest the funds entrusted to us with integrity, care, and skill to maximize return over the long-term at a prudent level of risk for the exclusive benefit of beneficiaries. This mission has served our State well since the founding of the WSIB in 1981. Last year, with a largely new executive team in place, we felt it was time to engage with staff to define our agency's vision and values.

As a leading institutional investor, our vision is to utilize diverse skillsets and perspectives to achieve investment and operational excellence with global and innovative approaches in service to our beneficiaries, State, communities, and one another.

Our **values** define who we are and how we work together. They are:

- **Integrity**: Our actions and processes reflect an unwavering commitment to honesty and sound ethical standards to ensure public trust and confidence in all we do.
- **Service**: Our long-term investment success supports the social fabric of beneficiary communities and fiscal flexibility for the State.
- **Excellence**: We deliver high-quality work through thoughtful deliberation, collaboration, continuous improvement, and accountability.
- **Belonging**: We recognize that the contributions of everyone in our organization are essential to our success. We create and sustain a diverse and inclusive environment where people are valued, respected, empowered, and supported in their growth and development.
- **Openness**: We operate with transparency in our processes and clarity in our communication. We demonstrate curiosity, care, and compassion in our interactions with each other and those we serve.
- **Innovation**: We are driven to thoughtfully improve, adapt, and evolve in response to a dynamic and ever-changing environment.

These concepts certainly are not new to the WSIB. They form the bedrock of who we are and how we approach the vital work we do for the beneficiaries we serve. Our staff is proud of all we have accomplished to help secure the financial future of over 650,000 Washingtonians. At the same time, we realize that we must not be complacent. We will always push forward, challenge our assumptions, identify the risks and opportunities that come with uncertainty, and, most importantly, stay true to our mission.

Sincerely,

Allyson Tucker, Chief Executive Officer

MESSAGE FROM THE CHAIR

It is my honor to present the 2023 Annual Report for the WSIB. This report provides investment performance and related financial information for participants and beneficiaries of the retirement and other public funds managed by the WSIB.

It has been a distinct privilege to Chair the WSIB's 15-member independent Board these past two years. For 42 years, the WSIB has delivered on its mission to maximize return at a prudent level of risk for beneficiaries across the state of Washington. The CTF has delivered an annual rate of return of just under 9 percent since inception. It's a big part of the reason that Washington has one of the best-funded pension systems in the nation. As the Director of the Department of Retirement Services (DRS), I can clearly see the enormous role the WSIB plays in helping Washington's public employees secure their retirement future.

The retirement benefits earned by Washington's public employees, teachers, school employees, law enforcement officers, firefighters, and judges account for approximately $6.5 billion in payments each year. The WSIB's investment returns also provide vital support for public funds that benefit Washington's industrial insurance program, colleges and universities, and developmental disability program.

The past year has been challenging. Stocks and bonds closed out the calendar year 2022 on a sour note and although markets rebounded in the first half of 2023, the outlook remains unclear for major economies worldwide. The WSIB's unwavering long-term investment focus and highly diversified asset mix is built for times like this.

In recent years, systemic environmental and social factors have become ever more critical—and material—for many of our investments. The WSIB has considered these factors in our decision-making process for years. In 2022, we established blueprints for both Climate and Diversity, Equity, and Inclusion (DEI). These roadmaps will help define and advance our ability to address these important issues. Like everything we do at the WSIB, we will take a thoughtful, considered approach, ensuring we stay true to our mission while upholding our fiduciary duty to beneficiaries.

I want to express my sincere gratitude to our beneficiaries for their trust and support and to my fellow Board members and the WSIB staff for their commitment to maintaining our outstanding investment program. As always, we will maintain transparency and engage in open dialogue with our external stakeholders as we tackle the complex issues we face today.

Sincerely,

Tracy Guerin, Chair

BOARD MEMBERS AND COMMITTEES

The WSIB is an independent Board of Trustees with a fiduciary responsibility 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, which are focused on efficiently analyzing investment and governance issues. Committee recommendations are brought to the Board for consideration and a vote.


Tracy Guerin
Chair


Treasurer
Mike Pellicciotti


Joel Sacks


Representative
Timm Ormsby


Senator
Mark Mullet


Greg Markley
Vice-Chair


Judy Kuschel


Yona Makowski


Sara Ketelsen

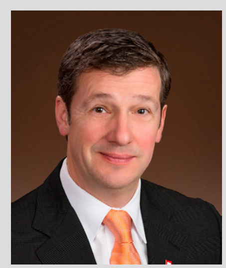

Liz Lewis


David Nierenberg


William A. Longbrake


Ada Healey


Mary Pugh


George Zinn

ADMINISTRATIVE COMMITTEE

The Administrative Committee has oversight of general policy and organizational issues, including personnel, budget, legislative programs, legal services, the nomination of non-voting Board members, and other issues not included in other committee charters.

AUDIT COMMITTEE

The Audit Committee assists the Board in the oversight of the financial and audit-related activities and operations, including compliance, risk management, internal/external audits, financial reporting, and internal controls.

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. The role also oversees legislative relations.

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.

JAMES ABER - 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, 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. This role also provides leadership on professional coaching and development, workplace and career planning, and management of all human resource functions.

CTF PARTNERS & FUND MANAGERS

PRIVATE EQUITY PARTNERS

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

REAL ESTATE PARTNERS

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

CTF PARTNERS & FUND MANAGERS

TANGIBLES PARTNERS

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

PUBLIC EQUITY FUND MANAGERS

Arrowstreet Capital
BlackRock
BLS Capital
Brandes Investment Partners
GQG Partners
LSV Asset Management
Magellan Asset Management
Mawer Investment Management
Sands Capital
State Street Global Advisors
TT International
William Blair & Company

INNOVATION FUND MANAGERS

Centerbridge Partners
Francisco Partners Management
GI Partners
GSO Capital Partners
Hudson Advisors
Monarch Alternative Capital Partners
Oak Hill Advisors
Sixth Street
TPG Partners

OVERLAY MANAGER

Russell Investments

ASSET STEWARDSHIP

The WSIB's asset stewardship efforts include the core corporate governance function of proxy voting, engagement with investee companies, and involvement with a select group of like-minded industry groups and peers. Together, these initiatives reflect the WSIB's s role as responsible stewards of the capital entrusted to us. The WSIB believes proxy voting is an important tool for positively influencing companies toward greater board accountability, genuine transparency, and an increased focus on long-term strategies. The WSIB also views direct engagement with companies and select industry bodies as an essential component of active ownership.

HIGHLIGHTS

- For 2023, the WSIB enhanced its voting rules to oppose certain directors at:
    - Russell 3000 companies with boards comprised of less than 30 percent women
    - Russell 1000 companies where specific race and ethnicity data for board members was not disclosed
- In 2023, the agency clarified its position on climate-related lobbying and introduced a new guideline holding the boards of large greenhouse gas emitting companies accountable for failures to implement strong climate-related governance frameworks
- The WSIB also clarified its approach to multi-class share structures, including board-level accountability in some circumstances

The WSIB continues to engage with investee companies primarily through peer networks focused on diversity and climate-related issues

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) INTEGRATION

The WSIB's ESG Integration objective is for all investment staff to have the necessary tools to appropriately incorporate financially material ESG considerations into their investment due diligence and monitoring processes. As with traditional financial factors, the ESG-related drivers of risk and return vary by asset class. Members of the WSIB's investment teams share best practices in ESG integration in partnership with the agency's ESG Working Group, which is comprised of one member of every asset class team and other agency staff.

HIGHLIGHTS

- As part of the comprehensive review of prospective new investments, the WSIB assesses ESG risks and opportunities
- Consensus was reached on a set of material ESG considerations that are broadly applicable across all asset classes, which are incorporated into the partner and investment due diligence process
- The agency is implementing its Board-approved Climate and DEI Blueprints, strategic roadmaps that define and advance the WSIB's ability to address these topics as integral factors within its investment discipline and organizational mission

ADVOCACY

In line with its fiduciary duty, the WSIB advocates for industry rules that promote fair and functioning markets, provide meaningful and investor-useful disclosures, and encourage long-term sustainable investment disciplines. The agency relies heavily on partnerships with pension fund peers, investment managers, and industry coalitions to amplify its voice, participating in numerous coalitions and forums on a wide range of issues, including climate change, DEI, and corporate governance.

HIGHLIGHTS

- WSIB CEO, Allyson Tucker participated in JP Morgan's Scottsdale Action Forum. Dozens of CEOs from some of the world's largest public and private companies and institutional investors gathered to discuss the pressing need to take meaningful steps to address climate change
- Allyson Tucker and WSIB staff lend their time and expertise to Ownership Works, a nonprofit organization focused on expanding broad-based employee ownership across corporate America
- The WSIB periodically contributes to research from partner organizations to help improve the function of capital markets over the long term. In 2023, the WSIB contributed to FCLT Global's white paper, *Grey to Green: The Opportunity for Private Equity to Decarbonize Assets* and the World Economic Forum's white paper, *Private Market Impact Investing: A Turning Point*

ANNUAL BUDGET

OBJECTS OF EXPENDITURE

APPROPRIATED

APPROPRIATED	Budget	Expenditures	Budget Variance
Salaries	$24,467,734	$20,425,727	$4,042,007
Benefits	6,120,774	5,045,172	1,075,602
Professional Service Contracts	2,029,712	322,721	1,706,991
Goods and Services	7,167,440	5,114,766	2,052,674
Travel	1,986,017	483,985	1,502,032
Equipment	125,114	1,365,844	(1,240,730)
Treasury Note	198,337	117,693	80,644
SUBTOTAL APPROPRIATED	$42,095,128	$32,875,908	$9,219,220

NON-APPROPRIATED

NON-APPROPRIATED	Budget	Expenditures	Budget Variance
Public Equity	$90,507,000	$64,486,176	$26,020,824
Private Equity	461,000,000	460,096,995	903,005
Real Estate	40,875,000	13,343,141	27,531,859
Tangible Assets	99,561,000	80,967,110	18,593,890
Innovation Portfolio	20,500,000	17,112,210	3,387,790
Securities Lending	4,500,000	3,478,361	1,021,639
Cash Management	5,500,000	4,278,085	1,221,915
Cash Overlay	1,000,000	645,806	354,194
General Consultants	1,015,000	221,250	793,750
Staff Consultants and Contractual Services	4,264,000	1,545,965	2,718,035
Legal Fees	3,000,000	887,907	2,112,093
Custodian Bank Fees and Trade Settlement Services	3,020,000	2,405,000	615,000
Portfolio Verification and Shadow Accounting System	850,000	638,124	211,876
Memberships	252,000	249,635	2,365
Research Services, Analytical Tools, and Other	4,442,000	3,886,368	555,632
SUBTOTAL NON-APPROPRIATED	740,286,000	654,242,133	86,043,867
TOTAL	$782,381,128	$687,118,041	$95,263,087

INVESTMENTS

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 is assigned a strategic asset allocation, which includes the asset classes used by that fund, long-term policy targets for those asset classes, and the acceptable ranges within which those targets can vary. The WSIB formally reviews the strategic asset allocations at least every four years.

RETIREMENT FUNDS

To more efficiently manage investments, reduce administrative costs, and minimize investment fees, the WSIB pools most of the state's defined benefit retirement fund assets into the CTF. A small portion of plan-specific Retirement Funds are invested separately. The market value stated in the audited financials for the CTF can be significantly different than the market value reported by the WSIB's custodian bank for any given time period. This variance is expected as the agency receives updated year-end alternative asset valuations after the unit price for the CTF is published and the Retirement Funds' audited financials are issued approximately three months after that price is established. As the market value of the CTF has continued to grow, the difference has also gotten larger. 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 for 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 both their performance 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 2.9 percent. It fluctuated through the summer and fall, falling as low as 2.6 percent in August, before peaking at 4.2 percent in October, and ending 2022 calendar year at 3.8 percent. In 2023, the yield fell to 3.4 percent in January before reaching 4.1 percent in early March. It finished the fiscal year at 3.8 percent.

HIGHLIGHTS

- The portfolio outperformed the Bloomberg U.S. Universal Index for the fiscal year
- Transactions totaled $3.5 billion in purchases and $3.1 billion in sales
- During the fiscal year, $1.9 billion was transferred from fixed income to other asset classes

TANGIBLE ASSETS

The tangible assets portfolio invests in assets 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 industry has a different return attribute, which provides diversification benefits to the overall CTF portfolio.

The portfolio, which is invested primarily in externally managed partnerships, is expected to generate returns, that are higher than fixed income but lower than equities. the WSIB expects a large portion of the tangible assets returns to come from distributed income generated by the assets, with the remainder due to capital appreciation commensurate with inflation. The portfolio is expected to provide the CTF with diversification and perform relatively well during 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 managed by a variety of investment partners spread among the four main sectors, with each investment targeting varying levels of risks.

HIGHLIGHTS

- Despite the lingering effects of the pandemic, continued global turmoil, and rising inflation, the WSIB approved nine new commitments totaling approximately $2.3 billion
- As of June 30, 2023, the tangible assets portfolio was 6.9 percent of the CTF, with a current target allocation of 8.0 percent
- As expected with a growing portfolio, capital calls continued to outpace distributions, at $1.8 billion and $0.9 billion, respectively
- The portfolio's performance is in line with expectations during the current period of higher inflation

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. Most of these externally managed partnerships invest in properties leased to third parties. The steady income from lease payments, combined with the potential for appreciation, generate returns that are expected to fall between the performance for fixed income and equities over the long-term. In most cases, the WSIB and its local partners are the only financial investors in a partnership. This provides the WSIB with excellent governance provisions related to acquisition, disposition, and annual business planning processes. 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 style, and real estate assets are geographically diversified, including outside the U.S. Investments are made in a variety of property types to provide further diversification. Finally, diversification is enhanced by our partners investing at different points in the real estate capital structure and at different times in the property life cycle. These varying kinds of diversification provide a degree of stability within a cyclical investment class.

Real estate returns were relatively strong in Fiscal Year 2023, although lower than returns generated in Fiscal Year 2022 due to higher interest rates. Heavy weightings in industrial/warehouse properties continued to benefit overall returns. Residential properties also performed relatively well as the economy moves further away from the effects of the pandemic. Geographically, the U.S. provided the best returns globally, in line with the previous year. 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 the real estate portfolio has generated over time and across multiple economic cycles. In general, the drivers of the successful long-term returns are the WSIB's investments in real estate operating companies (REOCs), diversification by market and property type, and an emphasis on high-quality micro-locations in major markets.

HIGHLIGHTS

- One commitment totaling $500.0 million was made during the fiscal year

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 success of the public equity program depends on investment managers finding the most attractive opportunities wherever they are in the world.

Global equity markets rebounded over the fiscal year. The first quarter of the fiscal year (July 2022 through September 2022) started off on a gloomy note, with the global benchmark, MSCI All Country World Investable Market Index (ACWI IMI) w/U.S. Gross, returning a negative 6.6 percent as higher rates and recession fears weighed on market sentiment. However, during the remainder of the fiscal year (October 2022 through June 2023), the market environment changed dramatically, and the global benchmark experienced three consecutive quarters of positive returns, gaining 16.5 percent over the entire fiscal year. A confluence of events brought about the sharp turnaround in equity markets, including China's lifting of its zero-Covid policy, a belief that the Fed is nearing an end of this cycle's rate hikes, and optimism surrounding artificial intelligence (AI). The largest technology stocks were leading the rebound and growth outperformed value globally, reversing the trends from Fiscal Year 2022.

The public equity program meaningfully outperformed its benchmark, posting a gain of 16.9 percent compared to the benchmark return of 16.5 percent. The WSIB's active global and emerging markets programs exceeded their respective benchmark returns. The passively managed U.S. equity program performed slightly ahead of its benchmark while the non-U.S. developed program underperformed.

HIGHLIGHTS

- The public equity portfolio outperformed its benchmark across all annualized time periods
- Following a transition during the fiscal year, the non-U.S. developed equity program is now completely passive and is expected to perform in line with the benchmark for the foreseeable future

PRIVATE EQUITY

The objective of the private equity program is 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 managed to a model portfolio to ensure adequate diversification by general partner, strategy type and geography.

After a correction in the growth sector that lasted just over a year, private equity valuations continue to adjust and this may take longer than it has in the past. Traditional performance metrics are resurfacing, such as manageable leverage, capital efficiency and profitability as the outlook will be challenged by fluctuating market conditions. The investment environment during the fiscal year was characterized by conflicting economic trends. Despite low unemployment and continued demand for goods and services, Fiscal Year 2023 has seen the most business bankruptcies since 2010, and commercial real estate defaults continue to rise against the backdrop of a challenging fiscal situation in most developed countries. Three U.S. banks have failed this year and geopolitical tensions remain high. Notwithstanding a steady rise in interest rates and consequent tightening of credit conditions, global equities have continued to march higher. The private equity program continues to deploy funds prudently, with a measured commitment pace to ensure vintage year diversification.

HIGHLIGHTS

- Approximately $5.6 billion in new commitments to funds were closed during Fiscal Year 2023, compared to $7.8 in Fiscal Year 2022
- Commitments were made to 12 private equity partnerships during Fiscal Year 2023
- The portfolio remains largely on target in terms of strategy and geography versus 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 an ability to assess an investment's demonstrated success before committing larger dollar amounts to these new and innovative investment strategies.

HIGHLIGHTS

- During the fiscal year commitments were made to three funds
- The investment strategies targeted were opportunistic credit, direct lending, and distressed debt

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). These programs are accounted for and reported on by DRS.

VOLUNTEER FIREFIGHTERS' AND RESERVE OFFICERS' RELIEF AND PENSION FUND (VFFRO)

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.

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

Treasury Inflation Protected Securities (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. TIPS Index.

FINANCIALS

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, 2023, 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, 2023.

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

PO Box 40916, Olympia, WA 98504-0916

Phone: 360-956-4600

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

RETIREMENT FUNDS

CPAs & BUSINESS ADVISORS

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, 2023, 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, 2023, and the changes in fiduciary net investment position for the year then ended in accordance 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* issued by the Comptroller General of the United States (*Government Auditing Standards*). 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.

EMPHASIS OF MATTER

As discussed in Note 9 to the financial statements, total investments in the Retirement Funds include investments valued at $90.7 billion (57.3% of total investments) as of June 30, 2023, 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 GAAS, 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 22, 2023 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.

Eide Bailly LLP

Boise, Idaho
September 22, 2023

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, 2023. 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, 2023. The summarized change in fiduciary net investment position table compares the fiduciary net investment position of each major investment classification at June 30, 2023, with those at June 30, 2022. 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

MARKET ENVIRONMENT – BEGINNING OF FISCAL YEAR 2023

Fiscal Year 2023 came on the heels of one of the worst quarters for equity and bond markets in recent history. During the second half of Fiscal Year 2022, a confluence of factors, including the ongoing conflict in Ukraine and its impact on commodity prices, COVID-related supply chain disruptions, labor shortages, and geopolitical tensions, led to historically high inflation figures in many countries. The United States (U.S.) Consumer Price Index (CPI), which captures the cost of a sample of goods and services representative of a typical consumer's spending, rose 9.1 percent from a year earlier ("year-over-year"), a level of inflation not seen in the U.S. since the early 1980s. This "headline" inflation led central banks, such as the U.S. Federal Reserve (Fed), the European Central Bank, and the Bank of England, to raise interest rates in response.

FIRST QUARTER OF FISCAL YEAR 2023 (JULY 1, 2022 TO SEPTEMBER 30, 2022)

In the first quarter of Fiscal Year 2023, the U.S. received some relief from high energy prices and headline inflation figures eased. However, "core" CPI, which excludes the more volatile food and energy costs, continued to rise. Inflation in the U.S. remained elevated as a strong labor market pushed wages up, buoying consumers' ability to maintain healthy spending levels in the face of rising prices. Shelter and medical care costs also remained high, contributing to a persistently high core inflation rate. In response, the Fed raised interest rates twice during the quarter, bringing the federal fund's target rate range to 3.00 to 3.25 percent.

During this quarter, investors also noted signs of slowing global growth. The purchasing managers indices (PMIs), which are a gauge of economic conditions based on purchasing managers sentiment, warned of declining new orders, slower export business, and rising levels of unsold inventory. In particular, the J.P. Morgan Global Composite PMI for August signaled a slowdown in global economic activity for the first time since June 2020. Estimates of the U.S. gross domestic product (GDP), a measure of economic output, indicated that the U.S. economy had contracted in the first two calendar quarters of 2022, a so-called “technical recession”. Persistently high core inflation and a negative economic outlook weighed on equity markets, and the MSCI Developed Markets World Investable Market Index (IMI), a broad measure of developed equity market returns, declined 6.1 percent for the quarter, further compounding a dismal 2022 for equity investors. Countries in emerging markets underperformed those in developed markets during the quarter, with the MSCI Emerging Markets IMI losing 10.8 percent. U.S. interest rates, as measured by the U.S. 10-year Treasury rate, were higher as well. They closed out the quarter at 3.8 percent, up 0.8 percent from the previous quarter. These higher interest rates negatively impacted the returns in the fixed income markets, and the Bloomberg U.S. Universal Index, a measure of the total U.S. dollar-denominated, fixed-rate, taxable bond market, lost 4.5 percent for the quarter.

SECOND QUARTER OF FISCAL YEAR 2023 (OCTOBER 1, 2022 TO DECEMBER 31, 2022)

The second quarter of Fiscal Year 2023 brought more signs of an impending slowdown in global manufacturing as respondents to PMI surveys noted a slump in new orders and rising inventory levels. On a positive note, GDP data from the Commerce Department indicated the U.S. economy had grown by 3.2 percent (annualized) in the third calendar quarter of 2022, as consumer spending helped the economy rebound from two prior quarters of contraction. Headline inflation remained high during the quarter but continued to trend downward, and core inflation finally began to subside as supply chain pressures eased. Inflation figures remained well outside of the Fed’s desired range, and the labor market remained tight amid strong demand for workers. The Fed responded by raising its policy rate twice during the quarter. At the end of the quarter, the range for the Fed’s target rate was 4.25 to 4.50 percent. The decline in inflation was positive for equity markets, and the MSCI Developed Markets World IMI returned 9.9 percent for the quarter. Emerging markets also performed well, with the MSCI Emerging Markets IMI up 9.5 percent. This helped ease some of the declines experienced in the equity markets throughout the calendar year 2022. In the fixed income markets, longer-maturity interest rates remained unchanged during the quarter despite the Fed’s moves. Credit spreads narrowed in line with the positive equity market performance, and, combined with a lack of significant movements in long-term interest rates, fixed income indices enjoyed positive returns during the quarter. The Bloomberg U.S. Universal Index gained 2.2 percent for the quarter to close out a rough calendar year for fixed income investors.

THIRD QUARTER OF FISCAL YEAR 2023 (JANUARY 1, 2023 TO MARCH 31, 2023)

The third quarter of Fiscal Year 2023 began with a sense of optimism as many investors believed global central banks would halt interest rate hikes as inflation continued to retreat. This sentiment soon faded as February brought concerns that the global economy was overheating, which might necessitate keeping interest rates higher for longer. In March, fears of another global financial crisis took hold following the collapse of Silicon Valley Bank, the second-largest banking failure in U.S. history. This led to a major sell-off in the U.S. and European financial sectors. Overall, lower energy and oil prices, coupled with optimism about the reopening of China following three years of Covid-19 lockdowns, improved business sentiment during the quarter, as illustrated by a rebound in the S&P Global U.S. and European Composite PMIs. The U.S. labor market remained resilient as March non-farm payrolls showed continued job growth. Average hourly earnings rose by just 0.3 percent month over month, reflecting gradually decelerating wage pressures. The March CPI report showed headline inflation falling to 5.0 percent year-over-year, far from the peak of 9.1 percent in June 2022. Slowing growth rates in wages and housing costs signaled a continued downward trend in inflation. The Fed raised interest rates twice more during the quarter, bringing the target range to 4.75 to 5.0 percent, with Fed Chair Jay Powell warning that additional increases were still on the table. Developed equity markets enjoyed a positive quarter as the MSCI Developed Markets World IMI returned 7.3 percent. Emerging markets trailed well behind, with a return of 3.9 percent for the MSCI Emerging Markets IMI. Despite the robust equity markets and interest rate hikes, the U.S. 10-year Treasury yield declined by 0.4 percent to end the quarter at 3.5 percent. The Bloomberg U.S. Universal gained 2.9 percent for the quarter as a result of the falling yields.

FOURTH QUARTER OF FISCAL YEAR 2023 (APRIL 1, 2023 TO JUNE 30, 2023)

In the last quarter of Fiscal Year 2023, concerns about the U.S. “debt ceiling” took center stage. In January, the U.S. officially reached its statutory debt limit, commonly known as the “debt ceiling”. The U.S. Treasury was able to extend the limit temporarily but warned it would exhaust its options by June 5th. Investors remained on edge as congressional negotiations dragged on. In late May, congressional members reached a compromise on legislation to suspend the debt ceiling, which was swiftly approved by Congress and signed into law by President Biden. The deal included concessions on spending, which were not expected to slow economic growth.

Meanwhile, there were signs that U.S. inflation might return to acceptable levels and the Fed might stop hiking rates. By June, headline inflation fell to 3.0 percent year-over-year amid a continued decline in energy costs. The U.S. unemployment rate increased in May from 3.4 to 3.7 percent, a larger-than-expected move, but the labor market remained historically tight. After increasing its target rate range to 5.0 to 5.25 percent in May, the Fed held off on further rate increases in June.

The quarter ended with strong equity markets as global investors reacted positively to slowing inflation and optimism that an end to the Fed’s interest rate hikes was on the horizon. Enthusiasm about the latest breakthroughs in generative artificial intelligence also boosted tech stocks. The MSCI Developed Markets World IMI returned 6.4 percent for the quarter and 17.9 percent for the fiscal year that ended June 30, 2023. Emerging markets continued to trail developed markets, with the MSCI Emerging Markets IMI returning 1.6 percent for the quarter and 3.2 percent year-over-year.

Despite the Fed’s decision to pause interest rate increases, the U.S. 10-year Treasury yield rose to end the quarter and fiscal year at 3.8 percent, an increase of 0.8 percentage points from the previous fiscal year. In fixed income markets, both investment grade and high yield spreads narrowed further, with year-over-year declines of 32 and 179 basis points, respectively. The Bloomberg U.S. Universal ended the quarter down 0.6 percent to close out Fiscal Year 2023 at a slight loss.

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. Participant funds hold units of the CTF, which represent their percentage ownership of the net invested balances. Participant funds also have an individual STIF account used for cash management purposes and is part of the total retirement plans’ net invested balances.

The Volunteer Firefighters’ and Reserve Officers’ (VFFRO) Fund has a separate asset allocation policy which was approved in the previous fiscal year. 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 Fund's investment balances are included in the Plan-Specific sections of the accompanying financial statements.

In Fiscal Year 2022, the CTF was officially incorporated as an investment option for the glide paths of the Retirement Strategy Funds (RSF). The primary benefit is to allow participant funds 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) plans and Deferred Compensation program of the state of Washington. In the previous fiscal year, the RSF manager made a large initial investment to the CTF. The CTF is also a self-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.

ANALYSIS OF CHANGES TO FIDUCIARY NET INVESTMENT POSITION

As shown in the following table, the fiduciary net investment position of the Retirement Funds increased by $8,594.6 million during the fiscal year ended June 30, 2023. Net investment income increased fiduciary net investment position by $10,383.1 million and was reinvested in the various asset classes of the Retirement Funds. This was offset by net withdrawals from the Retirement Funds during the current fiscal year that decreased fiduciary net investment position by $1,788.5 million.

Net investment income increased by $10,117.5 million during the current fiscal year as compared to the prior year, almost entirely from increases in realized and unrealized gains. During the current fiscal year, all asset classes, except for alternative assets, experienced significant increases in returns from the prior fiscal year, resulting in this increase. The current fiscal year return of 5.2 percent was relatively unchanged compared to the prior year return of 5.4 percent. The alternative assets returned significantly lower than the previous year, offsetting steep inclines to returns in the other asset classes. The WSIB audited financial statements include fair value adjustments for alternative assets as of June 30, 2023. Alternative asset returns reflected in the total returns are lagged by one quarter as of March 31st of each year. This is standard practice due to availability of data within this asset class. The amount of market appreciation included in the audited financial statements as of June 30, 2023, which is not reflected in the official published retirement fund performance return of 1.4 percent, is $2.1 billion.

Net withdrawals reported in the following table increased from the prior year by $1,511.3 million. This is a result of the CTF becoming part of the glide path of the RSF in Fiscal Year 2022 as previously noted, where the initial investment of $1,340.3 million significantly offset withdrawal requests from DRS. Excluding this prior year one-time event, net withdrawals by the DRS increased by $171.0 million 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 member withdrawals. The combined refunds of previously made contributions, annuity payments, and benefit payments from the retirement trust funds increased 11.6 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 asset allocation 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.

Investment related receivables and payables are reflected in each asset class's fiduciary net investment position in the following table. Open foreign exchange contracts and unsettled investment trades pending over year end comprise most of these balances. The balances in open foreign exchange contracts fluctuate based on the trading needs of investment managers, as well as the market exposure required within the cash overlay program. Unsettled investment trades pending over year end vary based on the timing of additional cash flows, market fluctuations, and rebalancing to strategic investment targets. Accordingly, there is minimal correlation between open foreign exchange contracts or pending trades to invested balances, which can vary substantially from year to year.

	Fiscal Year End June 30, 2023					Fiscal Year End June 30, 2022					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 (**)	$ 2,230.8	$ 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%
Investment Income:												
Interest, Dividends, and Other Investment Income	98.9	876.3	725.4	1,334.1	3,034.7	9.5	799.2	763.6	1,959.8	3,532.1	(497.4)	-14.1%
Realized and Unrealized Gains (Losses)	74.3	(442.5)	5,317.5	3,101.1	8,050.4	(304.8)	(3,849.0)	(7,388.8)	8,944.9	(2,597.7)	10,648.1	-409.9%
Less: Investment Expenses	(29.2)	(2.8)	(78.7)	(591.3)	(702.0)	(24.9)	(3.1)	(83.9)	(556.9)	(668.8)	33.2	5.0%
Net Investment Income (Loss)	144.0	431.0	5,964.2	3,843.9	10,383.1	(320.2)	(3,052.9)	(6,709.1)	10,347.8	265.6	10,117.5	3809.3%
Net Amount Withdrawn	(1,788.5)	-	-	-	(1,788.5)	(277.2)	-	-	-	(277.2)	1,511.3	545.2%
Transfers Between Asset Classes	1,543.6	(1,906.3)	(2,786.4)	3,149.1	-	314.7	3,675.4	(3,627.9)	(362.2)	-	N/A	N/A
Ending Fiduciary Net Investment Position (**)	**$ 2,129.9**	**$ 23,863.1**	**$ 40,175.4**	**$ 92,168.6**	**$ 158,337.0**	**$ 2,230.8**	**$ 25,338.4**	**$ 36,997.6**	**$ 85,175.6**	**$ 149,742.4**	**$ 8,594.6**	**5.7%**
Increase (Decrease) in Fiduciary Net Investment Position	**$ (100.9)**	**$ (1,475.3)**	**$ 3,177.8**	**$ 6,993.0**	**$ 8,594.6**							
Percent Change in Fiduciary Net Investment Position	**-4.5%**	**-5.8%**	**8.6%**	**8.2%**	**5.7%**							
CTF One Year Time Weighted Return - June 30, 2023	**4.1%**	**1.9%**	**16.9%**	**1.4%**	**5.2%**							
CTF One Year Time Weighted Return - June 30, 2022	**0.2%**	**-10.6%**	**-16.0%**	**25.8%**	**5.4%**							
VFFRO One Year Time Weighted Return - June 30, 2023	**3.8%**	**2.2%**	**16.6%**	**N/A**	**12.1%**							
VFFRO One Year Time Weighted Return - June 30, 2022 (***)	**0.2%**	**N/A**	**N/A**	**N/A**	**-16.3%**							

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 was not 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.

  The fiduciary net investment position of the cash and cash equivalents portfolio decreased by $100.9 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, liquidity requirements in the alternative assets program, and invested balances in relationship to strategic targets.

Cash returns for the one-year period ended June 30, 2023, net of the returns in the overlay program, were 4.1 percent, which was a significant increase over the prior year return of 0.2 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 350 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.

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 began the fiscal year with 100.0 percent exposure to fixed income futures due to an overweight to equities in the CTF. The overweight to equities was slowly reduced during the first half of the fiscal year, and by December, the overlay exposure was split evenly between equity and fixed income futures. The allocation remained split for the rest of the fiscal year finishing slightly overweight to fixed income futures.

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 1.6 percent, with a range of 1.1 percent to 2.1 percent of the total fiduciary net investment position. The global equity market, as measured by the MSCI ACWI IMI with U.S. Gross index, returned 16.5 percent for the year ending June 30, 2023, while the fixed income market returned (0.04) percent as measured by the Bloomberg U.S. Universal index for the same period. With the robust return in global equity markets and only a partial offset by a modest negative return in fixed income, the overlay program had a positive return impact on the CTF for the fiscal year ending June 30, 2023.

- ***Debt securities*** fiduciary net investment position decreased by $1,475.3 million. Interest income net of investment expenses of $873.5 million was reinvested in debt securities during the current fiscal year. CTF asset allocation rebalancing transfers were done during the year to maintain strategic investment targets, decreasing the fiduciary net investment position for this asset class by $1,906.3 million. Realized and unrealized losses decreased invested balances in this asset class by $442.5 million. Following significant market declines in the previous fiscal year, credit spreads narrowed and the income yield on the portfolio was high enough to offset the negative price effect from the raising rate environment, producing a positive annual return. Debt securities returned 1.9 percent in the current fiscal year which was a significant increase compared to (10.6) percent in the previous year. The fiduciary net investment position and performance of debt securities include $285.6 million of cash balances used for trading purposes.

Performance of the CTF fixed income portfolio was positive for the year at 1.9 percent, outperforming the benchmark return, the Bloomberg U.S. Universal Bond Index, of (0.04) percent. Narrowing credit spreads in a rising rate environment drove fixed income returns significantly higher 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.

The VFFRO Fund invests in the Daily Valued Bond Fund (Bond Fund), a commingled investment fund managed by the WSIB. The VFFRO Fund's fair value of $64.3 million of debt securities is included in the preceding table. Accordingly, interest income is retained and reinvested within the commingled fund, and a loss of $1.9 million is reflected in realized and unrealized gains and losses. To maintain strategic asset allocation targets in the VFFRO Fund, debt securities were sold and the proceeds of $6.3 million were reinvested in cash and equity securities. Performance of the Bond Fund for the fiscal year ended June 30, 2023, was 2.2 percent, which outperformed its benchmark, the Bloomberg U.S. Intermediate Credit Index, which returned 1.6 percent. See the Daily Valued Funds' audited financial statements for additional information on this investment vehicle.

See the General Market Commentary for additional economic and market information.

- ***Equity securities*** fiduciary net investment position increased by $3,177.8 million from the prior fiscal year. Dividend income net of investment expenses of $646.7 million was reinvested in equity securities during the current fiscal year. Realized and unrealized gains increased balances in this asset class by $5,317.5 million, the result of positive investment returns in the equity markets. CTF asset allocation rebalancing transfers were done during the year and equity sale proceeds totaling $2,786.4 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 $336.0 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. CTF equity securities returned 16.9 percent during the fiscal year, modestly outperforming the benchmark return of 16.5 percent. As discussed in the General Market Commentary, the equity markets had a volatile year ending with significantly higher returns as compared to the previous fiscal year. The CTF's public equity portfolio is designed to mitigate losses during falling equity markets while keeping up with the gains during rising equity markets, to the extent possible in a program that is mostly passive.

  The VFFRO Funds invest in a passively managed commingled account designed to track the return of a broad global equity benchmark, the MSCI ACWI IMI. The VFFRO Fund's fair value of $167.6 million of equity securities is included in the preceding table. Accordingly, interest income is retained and reinvested within the commingled fund, and a gain of $24.0 million is reflected in realized and unrealized gains and losses. To maintain strategic asset allocation targets, $2.3 million of bond sale proceeds were invested in equity securities. The VFFRO Funds' equity securities returned 16.6 percent in the fiscal year, slightly outperforming the benchmark return of 16.5 percent, which is within expectation for a passive equity strategy.

  See the General Market Commentary for additional economic and market information.

- ***Alternative assets*** fiduciary net investment position increased by $6,993.0 million. Ordinary income distributions net of investment expenses increased this asset class by $742.8 million. Realized and unrealized gains increased balances in this asset class by $3,101.1 million. During the current fiscal year, alternative asset managers called capital and expenses of $10,244.6 million and made distributions of cash and stock amounting to $7,095.5 million. Capital calls outpaced distributions received, and $3,149.1 million was transferred from other asset classes to fund the remaining capital requirements of the program.

  Interest, dividends, and other investment income, net of investment expenses decreased by $660.1 million over the previous fiscal year, resulting from a decrease in income distributions from general partners of $625.7 million and an increase of management fees and expenses of $34.4 million. Realized and unrealized gains decreased by $5,843.8 million over the previous fiscal year, the result of decreased portfolio returns as shown in the following table. The WSIB audited financial statements include fair value adjustments for alternative assets as of June 30, 2023. Alternative asset 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 appreciation included in the audited financial statements as of June 30, 2023, which is not reflected in the official published performance return for alternative assets noted below of 1.4 percent, is $2.1 billion.

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

Alternative Investment Returns *	FY 2023	FY 2022
Private Equity	-2.8%	19.9%
Real Estate	5.3%	40.8%
Tangible Assets	7.4%	11.1%
Innovation	3.9%	17.0%
Total Alternative Asset Return	1.4%	25.8%

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

Private Equity

The net asset value of the private equity portfolio at the end of Fiscal Year 2023 was $45.9 billion, approximately $4.1 billion higher than the previous fiscal year. The portfolio returned (2.8) percent in the current fiscal year, a significant decline from the previous year return of 19.9 percent. The unraveling of the equity markets triggered by the Fed's tightening cycle continued through the first half of the fiscal year, resulting in a drastic slowdown in buyout activity, as the cost of financing deals reset downward. The markets began rebounding from the adverse impact of the higher interest rate environment in the third quarter of the fiscal year, when another bout of dislocation occurred caused by a string of regional bank failures. This was short-lived due to strong institutional support of the broader banking sector, allowing the public markets to resume their upward climb and reigniting private equity deal activity.

Real Estate

The WSIB's real estate program primarily focuses on creating a high-quality, long-term, stable income stream for the CTF. Investments target risk-adjusted returns consistent with WSIB's long-term expectations for the asset class. The WSIB invests in real estate mainly through limited partnerships who lease properties in the portfolio to third parties. The steady income from lease payments, combined with the potential for appreciation, generates returns that are expected to fall between the performance for fixed income and equities over the long-term.

Real estate assets are geographically diversified, which includes assets located outside of the United States. Investments are made in a variety of property types by WSIB's investment partners to provide further diversification. Finally, diversification is enhanced by 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 this cyclical investment class.

The real estate portfolio's return of 5.3 percent was relatively strong in the current fiscal year, although moderating from the previous fiscal year's return of 40.8 percent due to higher interest rates. The heavy weighting to industrial and warehouse properties continued to benefit the real estate portfolio returns. Residential properties also performed relatively well as the economy moved further away from the effects of the Covid pandemic. Geographically, the U.S. provided the best returns globally, similar to the previous year. The portfolio continues to produce steady income yields, a primary goal of the program.

Tangible Assets

The tangible asset portfolio continues to grow toward the asset allocation target of 8.0 percent of the CTF, increasing in value by $1.6 billion compared to the previous fiscal year. The increase in value is attributed to new partnerships added and capital calls that continue to exceed distributions. Tangible assets investments returned 7.4 percent in the current fiscal year, which was below the benchmark performance of CPI plus 400 basis points lagged one quarter at 9.0 percent. The tangible assets performed in line with inflation over the last few years and outperformed the benchmark for the three-year return.

Innovation Portfolio

The innovation portfolio's primary investment purpose 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. The secondary purpose is providing the WSIB with comfort and demonstrated success before committing large dollar amounts to the strategy. The innovation portfolio added three new investments during the current fiscal year. Capital is gradually being deployed as WSIB seeks to identify investments outside of existing asset classes. The innovation portfolio's performance is generally in line with expectations.

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.

As shown in the following table, securities on loan decreased slightly by $1.8 million and collateral held under securities lending agreements decreased accordingly. During the fiscal year, borrowers pledged more non-cash collateral relative to cash collateral for the securities they borrowed. The WSIB only accepts U.S. Treasury and U.S. Agency securities for non-cash collateral. While securities on loan decreased slightly compared to the previous fiscal year, securities lending earnings increased year over year. A major driver of the increase in securities lending income was borrower demand for electric vehicle, and related infrastructure, companies. Overall, it was a volatile year as events including the war in the Ukraine, supply chain disruptions, the Fed's rate increases, and concerns over regional banks affected the financial markets.

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

	Summarized Change in Securities on Loan and Collateral ($ Millions)			
	June 30, 2023	June 30, 2022	Increase (Decrease)	Percent Change
Securities on Loan Fiscal Year End	$ 326.8	$ 328.6	$ (1.8)	-0.5%
Cash Collateral Held Under Securities Lending Agreements	247.8	285.5	(37.7)	
Non-Cash Collateral Held Under Securities Lending Agreements	90.9	60.2	30.7	
Total Collateral Held	**$ 338.7**	**$ 345.7**	**$ (7.0)**	**-2.0%**

RETIREMENT FUNDS STATEMENT OF FIDUCIARY NET INVESTMENT POSITION
JUNE 30, 2023

SEE NOTES TO FINANCIAL STATEMENTS

	Commingled Trust Fund	Plan-Specific Investments	Total	Percent of Total
ASSETS				
Investments				
CASH AND CASH EQUIVALENTS	$ 2,120,798,940	$ 369,065,973	$ 2,489,864,913	1.6%
DEBT SECURITIES				
Mortgage and Other Asset-Backed Securities	1,776,238,332	-	1,776,238,332	
Commingled Intermediate Credit	-	64,292,254	64,292,254	
Corporate Bonds	15,759,066,876	-	15,759,066,876	
U.S. Government and Agency Securities	4,318,699,293	-	4,318,699,293	
Foreign Government and Agency Securities	1,982,164,849	-	1,982,164,849	
Total Debt Securities	23,836,169,350	64,292,254	23,900,461,604	15.1%
EQUITY SECURITIES				
Common and Preferred Stock	21,345,325,703	-	21,345,325,703	
Collective Investment Trusts and Mutual Funds	17,478,379,030	167,556,291	17,645,935,321	
Real Estate Investment Trusts	198,910,796	-	198,910,796	
Depository Receipts and Other Miscellaneous	583,037,386	-	583,037,386	
Total Equity Securities	39,605,652,915	167,556,291	39,773,209,206	25.1%
ALTERNATIVE INVESTMENTS				
Private Equity	45,925,855,959	-	45,925,855,959	
Real Estate	33,502,788,058	-	33,502,788,058	
Tangible Assets	10,924,382,097	-	10,924,382,097	
Innovation	1,784,088,532	-	1,784,088,532	
Total Alternative Investments	92,137,114,646	-	92,137,114,646	58.2%
Total Investments	157,699,735,851	600,914,518	158,300,650,369	100.0%
Collateral Held Under Securities Lending Agreements	247,762,279	-	247,762,279	
Investment Earnings Receivable	396,693,993	1,615,616	398,309,609	
Receivables for Investments Sold	78,217,077	-	78,217,077	
Open Foreign Exchange Contracts Receivable	18,550,467,774	-	18,550,467,774	
Total Assets	176,972,876,974	602,530,134	177,575,407,108	
LIABILITIES				
Obligations Under Securities Lending Agreements	247,762,279	-	247,762,279	
Investment Management Fees Payable	17,335,479	34,418	17,369,897	
Payable for Investments Purchased	539,199,733	-	539,199,733	
Open Foreign Exchange Contracts Payable	18,434,070,068	-	18,434,070,068	
Total Liabilities	19,238,367,559	34,418	19,238,401,977	
FIDUCIARY NET INVESTMENT POSITION	$ 157,734,509,415	$ 602,495,716	$ 158,337,005,131	

RETIREMENT FUNDS STATEMENT OF CHANGES IN FIDUCIARY NET INVESTMENT POSITION YEAR ENDED JUNE 30, 2023

SEE NOTES TO FINANCIAL STATEMENTS

	Commingled Trust Fund	Plan-Specific Investments	Total
Net Investment Income			
Investment Income			
Interest, Dividends, and Other Investment Income	$ 3,019,326,400	$ 15,416,665	$ 3,034,743,065
Net Realized Gains (Losses)	2,965,851,477	(969,771)	2,964,881,706
Unrealized Gains (Losses)	5,059,183,108	26,390,938	5,085,574,046
Less:	-	-	
Investment Expenses	(675,049,097)	(345,217)	(675,394,314)
WSIB Operating Expenses	(26,606,518)	(38,885)	(26,645,403)
Net Investment Income (Loss)	10,342,705,370	40,453,730	10,383,159,100
Net Withdrawal by Retirement Plans	-	(1,788,524,752)	(1,788,524,752)
Investments in Commingled Funds	511,913,090	(511,913,090)	-
Withdrawals from Commingled Funds	(2,547,061,246)	2,547,061,246	-
Increase (Decrease) in Fiduciary Net Investment Position	$ 8,307,557,214	$ 287,077,134	$ 8,594,634,348
FIDUCIARY NET INVESTMENT POSITION, JUNE 30, 2022	149,426,952,201	315,418,582	149,742,370,783
FIDUCIARY NET INVESTMENT POSITION, JUNE 30, 2023	$ 157,734,509,415	$ 602,495,716	$ 158,337,005,131

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 these financial statements. 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, 2023, was $17.4 million and expenses associated with securities lending were $12.6 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 also a component of each RSF vintage years' glide path. The RSF are self-directed investment options of the DC Plans and Deferred Compensation Program. 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.

NOTE 3. BREAKDOWN OF FIDUCIARY NET INVESTMENT POSITION BY PLAN

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	Percent of Total
LEOFF 1	$ 6,871,819,177	$ 1,098,949	$ 6,872,918,126	4.3%
LEOFF 2	20,593,471,497	287,943	20,593,759,440	13.0%
PERS 1	9,174,054,166	5,840,030	9,179,894,196	5.8%
PERS 2/3 (DC and DB Plans)	65,106,905,098	23,073,636	65,129,978,734	41.2%
PUBLIC SAFETY EMPLOYEES 2	1,438,789,168	7,630,226	1,446,419,394	0.9%
SCHOOL EMPLOYEES 2/3 (DC and DB Plans)	11,389,637,913	15,491,022	11,405,128,935	7.2%
STATE PATROL 1	1,565,918,573	458,062	1,566,376,635	1.0%
STATE PATROL 2	224,556,315	2,009,398	226,565,713	0.1%
TEACHERS 1	6,934,761,774	254,903,527	7,189,665,301	4.5%
TEACHERS 2/3 (DC and DB Plans)	32,891,161,771	57,957,968	32,949,119,739	20.9%
VFFRO	-	232,840,768	232,840,768	0.1%
HERP - UW	111,175,407	681,043	111,856,450	0.1%
HERP - WSU	20,926,257	77,221	21,003,478	0.0%
HERP - EWU	4,137,056	16,181	4,153,237	0.0%
HERP - CWU	4,183,209	17,079	4,200,288	0.0%
HERP - TESC	1,564,233	4,444	1,568,677	0.0%
HERP - WWU	6,093,957	647	6,094,604	0.0%
HERP - SBCTC	36,217,440	107,572	36,325,012	0.0%
RETIREMENT STRATEGY FUNDS	1,359,136,404	-	1,359,136,404	0.9%
Total Fiduciary Net Investment Position at June 30, 2023	**$ 157,734,509,415**	**$ 602,495,716**	**$ 158,337,005,131**	**100.0%**

DB - Defined Benefit, DC - Defined Contribution

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 fair 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	$ 62,379,968	$ -	$ 62,379,968	$ 15,198,107,098
Public Equity Passive Management	1,430,367	868,918	2,299,285	24,977,216,664
ALTERNATIVE INVESTMENTS				
Private Equity	445,004,229	290,000,000	735,004,229	45,941,092,853
Real Estate	20,777,837	61,900,000	82,677,837	33,502,657,030
Tangible Assets	101,737,669	(12,100,000)	89,637,669	10,940,955,118
Innovation	19,575,080	13,100,000	32,675,080	1,784,082,282
CASH MANAGEMENT	3,647,165	-	3,647,165	2,129,875,646
DEBT SECURITIES	-	-	-	23,863,018,440
OTHER FEES				
Consultants and Accounting	2,292,331	-	2,292,331	N/A
Legal Fees	812,832	-	812,832	N/A
Research Services	2,994,064	-	2,994,064	N/A
Securities Lending Rebates and Fees	12,638,924	-	12,638,924	N/A
Custody Expense	1,851,856	-	1,851,856	N/A
Miscellaneous Fees	251,992	-	251,992	N/A
	$ 675,394,314	$ 353,768,918	$ 1,029,163,232	$ 158,337,005,131

* 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, 2023, the Retirement Funds had a total of $36,989.4 million in unfunded commitments in the asset classes (in millions) detailed in the table to the right.

Private Equity	$	20,204.8
Real Estate		10,544.0
Tangibles		5,343.5
Innovation		897.1
Total	**$**	**36,989.4**

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, 2023, 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 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, 2023, 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, 2023. 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, 2023, 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, 2023, 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 WSIB manages 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 portfolio's 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, 2023, of $816.8 million invested in one emerging market commingled equity investment trust funds.

The VFFRO Fund has no formal policy to limit foreign currency risk. The only security held by the VFFRO Fund with foreign currency exposure at June 30, 2023, consisted of $61.6 million invested in an international commingled equity index funds (MSCI ACWI IMI). The VFFRO Fund'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 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, 2023, was approximately $326.8 million within the CTF. The securities on loan remain in the Statement of Fiduciary Net Investment Position in their respective categories. At June 30, 2023, cash collateral received, totaling $247.8 million, is reported as a securities lending obligation. The fair value of the reinvested cash collateral, totaling $247.8 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, 2023, was $90.9 million.

Equity securities were loaned and collateralized by the Retirement Funds' agent with cash and U.S. Government or U.S. Agency Securities, including U.S. Agency Mortgage-Backed Securities (exclusive of letters of credit). When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest of the securities loaned. All other securities were required to be collateralized at 105 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, 2023.

Summarized Change in Securities on Loan and Collateral ($ Millions)	Cash Collateral	Non-Cash Collateral	Total
Repurchase Agreements	$ 48.3	$ -	$ 48.3
Yankee Certificate of Deposit	61.4	-	61.4
Commercial Paper	72.2	-	72.2
U.S. Treasuries	18.2	90.9	109.1
Cash Equivalents and Other	47.7	-	47.7
Total Collateral Held	**$ 247.8**	**$ 90.9**	**$ 338.7**

During Fiscal Year 2023, securities lending transactions could be terminated on demand by either the Retirement Funds or the borrower. As of June 30, 2023, the cash collateral held had an average duration of 12.84 days and an average weighted final maturity of 99.61 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 2023 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 2023, 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 fair value of the Retirement Funds is measured 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 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 Retirement Funds receive fair value prices for publicly traded securities directly from their custodian bank. These prices are obtained from reputable pricing sources, which include, but are not limited to, Thomson Reuters, Bloomberg Valuation Service, and Interactive Data Corporation. The custodian bank performs the following tolerance and review checks on the pricing data on a daily basis:

PUBLICLY TRADED EQUITY

- Comparison of primary pricing sources to a secondary source with a zero-tolerance threshold.
- Researches price changes from the previous day of ten percent or greater, with verification to secondary sources.
- Researches price changes from the previous day in excess of 20 percent by reviewing market related company news and corporate actions.
- Prices unchanged in excess of five days requires verification there is no market status change.

FIXED INCOME

- Researches price changes from the previous day of 2 to 5 percent or greater with corroborating evidence required from the primary pricing vendor.
- Prices unchanged in excess of ten days are sent to the appropriate vendor for review and verification.

The Retirement Funds receive fair value measurements for alternative assets from a third-party provider who collates data received from the general partners and other sources and prepares monthly valuation reports. WSIB staff review these reports monthly and verify the information to the appropriate source.

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

The following table presents CTF fair value measurements as of June 30, 2023:

		Fair Value Measurements Using:		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
INVESTMENTS				
DEBT SECURITIES				
Mortgage and Other Asset-Backed Securities	$ 1,776,238,332	$ -	$ 1,776,238,332	$ -
Corporate Bonds	15,759,066,876	-	15,759,066,876	-
U.S. and Foreign Government and Agency Securities	6,300,864,142	-	6,300,864,142	-
Total Debt Securities	23,836,169,350	-	23,836,169,350	-
EQUITY SECURITIES				
Common and Preferred Stock	21,345,325,703	21,302,743,304	40,204,931	2,377,468
Depository Receipts and Other Miscellaneous	583,037,386	583,033,793	101	3,492
Mutual Funds and Exchange Traded Funds	-	-	-	-
Real Estate Investment Trusts	198,910,796	198,910,796	-	-
Total Equity Securities	22,127,273,885	22,084,687,893	40,205,032	2,380,960
ALTERNATIVE INVESTMENTS				
Real Estate	1,054,923,593	-	-	1,054,923,593
Tangible Assets	359,428,129	353,307,288	-	6,120,841
Total Alternative Investments	1,414,351,722	353,307,288	-	1,061,044,434
Total Investments By Fair Value Level	47,377,794,957	22,437,995,181	23,876,374,382	1,063,425,394
INVESTMENTS MEASURED AT NET ASSET VALUE				
Collective Investment Trust Funds (Equity Securities)	17,478,379,030			
Private Equity	45,925,855,959			
Real Estate	32,447,864,465			
Tangible Assets	10,564,953,968			
Innovation	1,784,088,532			
Total Investments at Net Asset Value	108,201,141,954			
Total Investments Measured at Fair Value	$ 155,578,936,911			
OTHER ASSETS (LIABILITIES) AT FAIR VALUE				
Collateral Held Under Securities Lending Agreements	$ 247,762,279	$ -	$ 247,762,279	$ -
Net Foreign Exchange Contracts Receivable - Forward and Spot	116,397,706	-	116,397,706	-
Margin Variation Receivable - Futures Contracts	244,634	244,634	-	-
Obligations Under Securities Lending Agreements	(247,762,279)	-	(247,762,279)	-
Total Other Assets (Liabilities) Measured at Fair Value	$ 116,642,340	$ 244,634	$ 116,397,706	$ -

The following table presents VFFRO fair value measurements as of June 30, 2023:

		Fair Value
INVESTMENTS		
INVESTMENTS MEASURED AT NET ASSET VALUE		
Commingled Equity Index Funds	$	167,556,291
Commingled Intermediate Credit		64,292,254
Total Investments at Net Asset Value		231,848,545
Total Investments Measured at Fair Value	$	231,848,545

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 fair 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. 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.

The VFFRO 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 VFFRO Fund invests in the Bond Fund managed by the WSIB, whose audited financials are included in the Daily Valued Funds 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.

The VFFRO Fund'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 Fund may redeem some or all of their holdings on any business day without restriction (see the Daily Valued Funds audited financials issued by the WSIB for further information).

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 $90.7 billion (57.5 percent of total investments) as of June 30, 2023. 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, 2023 reported net asset value.

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

These investments listed below can never be redeemed. Instead, the nature of these investments provides for distributions from the sale/liquidation of the underlying assets of the fund and from net operating cash flows. It is anticipated that the various investments within each asset class will be liquidated over the following periods:

Liquidation Periods	Private Equity	Real Estate	Tangible Assets	Innovation	Total	Percent of Total
Less than 3 years	$ 34,807,827	$ 2,947,463	$ 54,515,892	$ 1,375,481	$ 93,646,663	0.1%
3 to 9 years	3,642,017,446	1,841,491,712	628,502,837	-	6,112,011,995	6.7%
10 years and over	42,249,030,686	30,603,425,290	9,881,935,239	1,782,713,051	84,517,104,266	93.2%
Total	$ 45,925,855,959	$ 32,447,864,465	$ 10,564,953,968	$ 1,784,088,532	$ 90,722,762,924	100.0%

PRIVATE EQUITY LIMITED PARTNERSHIPS

This includes 296 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 21 real estate investments. Targeted investment structures within the real estate portfolio include real estate operating companies, limited liability companies, joint ventures, commingled funds, and co-investments (see Note 12 to the basic financial statements for additional investment-related strategies and policies).

Real estate partnerships provide quarterly valuations based on the most recent capital account balance to the Retirement Fund management. Individual properties are valued by the investment management at least annually and are adjusted as frequently as quarterly if material market or operational changes have occurred. Properties are generally externally appraised every 1 to 5 years, depending upon the investment. Structured finance investments receive quarterly value adjustments by the partners, generally applying the assumption that all such positions will be held to maturity. Annual audits of most partnerships include a review of compliance with the partnership's valuation policies.

TANGIBLE ASSETS

This includes 66 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 13 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

The 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, 2023, the Retirement Funds held investments in financial futures, forward currency contracts, and total return swap contracts that are recorded at fair value, with changes 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, 2023, the Retirement Funds’ counterparty risk was approximately $558.4 million. The majority of the counterparties (68.8 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, 2023, the Retirement Funds had outstanding forward currency contracts with a net unrealized gain of $116.4 million. At June 30, 2023, 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 $18,532.6 million and $18,416.2 million, respectively. The contracts have varying settlement dates, ranging from July 3, 2023, to March 19, 2025.

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, 2023, the Retirement Funds held no total return swap contracts.

The Retirement Funds' fixed income portfolio held derivative instrument securities consisting of collateralized mortgage obligations with a fair value of $51.5 million at June 30, 2023. 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.

		Changes in Fair Value - Included in Investment Income	Fair Value at June 30, 2023 - Investment Derivative Instrument	
	Classification	Amount	Amount	Notional
FUTURES CONTRACTS:				
Bond Index Futures	Investment	$ (104,777,141)	$ (9,817,186)	994,500,000
Equity Index Futures	Investment	217,155,074	10,061,820	2,527,045
		$ 112,377,933	$ 244,634	997,027,045
FORWARD CURRENCY CONTRACTS	Investment	$ 26,244,442	$ 116,420,231	18,565,668,932

NOTE 11. DOLLAR WEIGHTED RETURNS

The dollar weighted return for the Retirement Funds for Fiscal Year 2023 was 7.0 percent.

NOTE 12. SUMMARY OF INVESTMENT POLICY

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

The WSIB is authorized to invest in the following: U.S. Treasury Bills; discount notes; repurchase agreements; reverse repurchase agreements; banker's acceptances; commercial paper; guaranteed investment 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 2023.

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 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 asset allocation 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%	± 4%	± 4%
Tangible Assets	8%	± 3%	± 3%
Real Estate	18%	± 3%	± 3%
Public Equity	30%	± 5%	± 5%
Private Equity	25%	± 5%	± 5%
Innovation Portfolio	0%	+ 5%	+ 5%
Cash	0%	+ 3%	+ 3%

Assets will be rebalanced across asset classes, as appropriate, when fair 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.

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	2023	2024	2025	Range
Fixed Income	20.3%	19.6%	19.0%	± 4%
Tangible Assets	6.7%	7.4%	8.0%	± 3%
Real Estate	18.0%	18.0%	18.0%	± 3%
Public Equity	29.5%	29.7%	30.0%	± 5%
Private Equity	25.5%	25.3%	25.0%	± 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 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 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.
- 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 fair value at the time of purchase and prohibits its fair value from exceeding 6 percent of the Retirement CTF's fair 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 fair value.
- The par value of bonds from any one issuer with a below investment grade rating (as defined by Bloomberg Global Family of fixed income indices) shall not exceed 1 percent of the total portfolio's par value.
- Total fair value of below investment grade credit bonds (as defined by Bloomberg Global Family of fixed income indices) shall not exceed 15 percent of the fair 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 fair value of below investment grade mortgage-backed, asset-backed, and commercial mortgage-backed securities shall not exceed 5 percent of the fair 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 U.S. Universal Index.

TARGET ALLOCATIONS - FIXED INCOME SECTORS

	Range
U.S. Treasuries and Government Agencies	10% – 45%
Credit Bonds	10% – 80%
Asset-Backed Securities	0% – 10%
Commercial Mortgage-Backed Securities	0% – 10%
Mortgage-Backed Securities	5% – 45%

PORTFOLIO REBALANCING – FIXED INCOME

Asset allocation policy constraints may, from time to time, place unintended burdens on the portfolios. Therefore, policy exceptions are allowed under certain circumstances. These events include changes in market interest rates, portfolio rebalancing to strategic targets, and bond rating downgrades. The portfolio can remain outside of policy guidelines until it can be rebalanced without harming the portfolio.

PRIVATE EQUITY INVESTING

The Retirement Funds can invest in any appropriate private equity investment opportunity which has the potential for returns superior to traditional investment opportunities, provided it is not prohibited by the WSIB's policies or by law. These investment types are generally divided into venture capital, corporate finance, growth equity, special situations, distressed, mezzanine, and other investments. Private equity investments are made either through limited partnership or direct investment vehicles. To meet the return and plan objectives, the private equity portfolio has diversified investments in companies in a variety of growth stages. The portfolio also includes a broad cross-section of opportunities in different industries and geographic regions.

The objectives and goals of the Private Equity investment program are to:

- Produce a well-diversified profitable portfolio that will enhance the total return of the Retirement Funds portfolio and ultimately pay benefits to participants and beneficiaries while meeting actuarial requirements.
- Diversify away from traditional capital market risks.
- Employ consistent strategies that contain sufficient flexibility to take advantage of opportunities available to the Retirement Funds, based on changes in the private equity or debt marketplaces.
- Achieve a superior total return as compared to traditional asset classes and exceed the return of the MSCI ACWI IMI, lagged by one calendar quarter, by 300 basis points in the long run.

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's investment strategy is to provide the WSIB with the ability to invest in assets that fall outside of traditional asset classes and to provide the WSIB with comfort and demonstrated success before committing large dollar amounts to the strategy. The overall benchmark for the Innovation portfolio is the weighted average of the underlying benchmark for each asset in the portfolio.

Currently, there are 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 VFFRO Fund 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 VFFRO Fund shall be judged relative to its investment objectives, risk constraints, and investment approach. The VFFRO 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 fair value at the time of purchase, nor shall its fair value exceed 6 percent of the fund's fair value at any time.
- Assets shall be diversified at a prudent level to moderate fluctuations in the fair value of the program.

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 fair 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%	± 5%
Fixed Income	30%	± 5%
Cash	0%	+ 5%

SCHEDULE 1

CTF SCHEDULE OF MATURITIES

Investment Type	Total Fair Value	Maturity: Less than 1 year	Maturity: 1-5 years	Maturity: 6-10 years	Maturity: More than 10 years	Effective Duration*
Mortgage and Other Asset-Backed Securities	$ 1,401,865,674	$ 6,979,500	$ 1,033,934,914	$ 274,891,427	$ 86,059,833	4.3
Corporate Bonds	15,759,066,876	110,979,411	6,232,825,121	6,096,373,981	3,318,888,363	6.7
U.S. Government and Agency Securities	4,318,699,293	861,075,019	2,566,469,027	222,133,047	669,022,200	4.4
Foreign Government and Agency Securities	1,982,164,849	6,805,189	691,459,026	799,899,800	484,000,834	7.0
Totally Internally Managed Fixed Income	23,461,796,692	985,839,119	10,524,688,088	7,393,298,255	4,557,971,230	6.1
Mortgage-Backed To Be Announced (TBA) Forwards	374,372,658	374,372,658	-	-	-	0.0
Total Retirement Funds Investment Categorized	23,836,169,350	$ 1,360,211,777	$ 10,524,688,088	$ 7,393,298,255	$ 4,557,971,230	6.1
Investments Not Required to be Categorized						
Cash and Cash Equivalents	2,120,798,940					
Equity Securities	39,605,652,915					
Alternative Investments	92,137,114,646					
Total Investments Not Categorized	133,863,566,501					
Total Investments	$ 157,699,735,851					

* Duration excludes cash and cash equivalents

VFFRO FUND SCHEDULE OF MATURITIES

Investment Type	Total Fair Value	Maturity: Less than 1 year	Maturity: 1-5 years	Maturity: 6-10 years	Maturity: More than 10 years	Effective Duration	Credit Rating
Commingled Intermediate Credit	$ 64,292,254	$ 3,535,200	$ 35,016,858	$ 24,388,153	$ 1,352,043	4.1	Schedule 2
Investments Not Required to be Categorized							
Cash and Cash Equivalents	1,001,838						
Equity Securities	167,556,291						
Total Investments Not Categorized	168,558,129						
Total Investments	$ 232,850,383						

SCHEDULE 2

CTF CREDIT RATING DISCLOSURES

	Investment Type				
Moodys Equivalent Credit Rating	Total Fair Value	Mortgage and Other Asset-Backed Securities	Corporate Bonds	U.S. Government and Agency Securities	Foreign Government and Agency Securities
Aaa	$ 6,451,835,146	$ 1,776,047,826	$ 318,347,528	$ 4,318,699,293	$ 38,740,499
Aa1	349,398,430	-	174,135,630	-	175,262,800
Aa2	221,744,862	-	45,606,192	-	176,138,670
Aa3	984,200,905	-	923,725,655	-	60,475,250
A1	1,673,777,261	-	1,397,353,841	-	276,423,420
A2	1,604,471,530	-	1,489,357,490	-	115,114,040
A3	2,707,009,255	-	2,707,009,255	-	-
Baa1	2,342,486,788	-	2,342,486,788	-	-
Baa2	2,856,021,205	190,506	2,316,033,720	-	539,796,979
Baa3	1,980,116,488	-	1,878,337,928	-	101,778,560
Ba1 or Lower	2,665,107,480	-	2,166,672,849	-	498,434,631
Total	$ 23,836,169,350	$ 1,776,238,332	$ 15,759,066,876	$ 4,318,699,293	$ 1,982,164,849

VFFRO FUND CREDIT RATING DISCLOSURES

	Commingled Intermediate Credit
Moody's Equivalent Credit Rating	Total Fair Value
Aaa	$ 1,248,863
Aa1	2,126,524
Aa2	1,208,174
Aa3	2,827,702
A1	7,184,337
A2	8,629,634
A3	11,834,441
Baa1	9,428,166
Baa2	11,695,598
Baa3	7,280,836
Ba1 or Lower	827,979
Total	$ 64,292,254

SCHEDULE 3

CTF FOREIGN CURRENCY EXPOSURE

Foreign Currency Denomination	Investment Type In U.S. Dollar Equivalent						
	Cash and Cash Equivalents	Debt Securities	Equity Securities	Alternative Assets	Open Foreign Exchange Contracts - Net	Total	Percent of Total Investment Balances
AUSTRALIAN DOLLAR	$ 3,796,522	$ -	$ 550,600,046	$ 469,542,996	$ (19,977,805)	$ 1,003,961,759	0.6%
BRAZILIAN REAL	1,817,338	-	424,457,685	-	(31,586,811)	394,688,212	0.3%
CANADIAN DOLLAR	4,187,055	-	935,237,534	-	(1,096,083)	938,328,506	0.6%
SWISS FRANC	3,691,494	-	794,230,005	-	18,197,537	816,119,036	0.5%
YUAN RENMINBI	5,188,897	12,218,570	523,693,095	-	13,487,451	554,588,013	0.4%
DANISH KRONE	686,344	-	463,472,854	-	2,069,854	466,229,052	0.3%
EURO CURRENCY	17,887,135	-	3,531,843,392	5,080,188,049	37,052,417	8,666,970,993	5.4%
POUND STERLING	8,749,069	-	1,721,323,445	-	13,437,154	1,743,509,668	1.1%
HONG KONG DOLLAR	7,681,721	-	748,423,269	-	3,477	756,108,467	0.5%
INDONESIAN RUPIAH	1,715,319	-	98,052,837	-	29,103	99,797,259	0.1%
INDIAN RUPEE	1,431,008	-	622,289,716	-	611,767	624,332,491	0.4%
JAPANESE YEN	25,096,990	-	2,312,215,285	-	144,885,156	2,482,197,431	1.5%
SOUTH KOREAN WON	1,032,301	-	441,651,648	-	1,874,849	444,558,798	0.3%
MEXICAN PESO	445,632	-	124,744,979	-	(16,642,908)	108,547,703	0.1%
NORWEGIAN KRONE	1,404,153	-	105,318,103	-	(1,013,699)	105,708,557	0.1%
SWEDISH KRONA	2,200,869	-	345,282,500	-	(499,179)	346,984,190	0.2%
SINGAPORE DOLLAR	2,288,404	-	98,631,267	-	(68,970)	100,850,701	0.1%
NEW TAIWAN DOLLAR	995,951	-	406,490,714	-	(110,169)	407,376,496	0.3%
SOUTH AFRICAN RAND	462,274	-	40,055,850	33,305,493	(983,549)	72,840,068	0.0%
MISCELLANEOUS	7,539,317	67,584,771	316,969,814	-	(43,271,886)	348,822,016	0.2%
Total Foreign Currency Exposure	$ 98,297,793	$ 79,803,341	$ 14,604,984,038	$ 5,583,036,538	$ 116,397,706	$ 20,482,519,416	13.0%

VFFRO FUND FOREIGN CURRENCY EXPOSURE

	Investment Type In U.S. Dollar Equivalent	
Foreign Currency Denomination	**Equity Securities**	**Percent of Total Investment Balances**
AUSTRALIAN DOLLAR	$ 3,229,732	1.4%
BRAZILIAN REAL	1,006,132	0.4%
CANADIAN DOLLAR	4,870,046	2.1%
SWISS FRANC	3,905,491	1.7%
YUAN RENMINBI	735,014	0.3%
DANISH KRONE	1,259,386	0.5%
EURO CURRENCY	13,560,018	5.8%
POUND STERLING	6,232,757	2.7%
HONG KONG DOLLAR	4,688,368	2.0%
JAPANESE YEN	10,020,869	4.3%
SOUTH KOREAN WON	2,298,219	1.0%
SAUDI RIYAL	756,534	0.3%
SWEDISH KRONA	1,500,475	0.6%
NEW TAIWAN DOLLAR	2,997,580	1.3%
SINGAPORE DOLLAR	562,544	0.2%
SOUTH AFRICAN RAND	582,344	0.3%
OTHER MISC	3,383,361	1.5%
Total Foreign Currency Exposure	$ 61,588,870	26.4%

EideBailly
CPAs & BUSINESS ADVISORS

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

TO THE MEMBERS OF THE WASHINGTON STATE INVESTMENT BOARD

OLYMPIA, WASHINGTON

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Retirement Funds as of and for the year ended June 30, 2023, 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 22, 2023.

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.

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

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

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.

Eide Bailly LLP

Boise, Idaho
September 22, 2023

LABOR AND INDUSTRIES’ FUNDS

CPAs & BUSINESS ADVISORS

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, 2023, 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, 2023, and the changes in fiduciary net investment position for the year then ended in accordance 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* issued by the Comptroller General of the United States (*Government Auditing Standards*). 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.

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 GAAS, 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 22, 2023 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.

Eide Bailly LLP

Boise, Idaho
September 22, 2023

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, 2023. 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, 2023. The summarized change in fiduciary net investment position table compares the fiduciary net investment position of each major investment classification at June 30, 2023, with those at June 30, 2022. 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

MARKET ENVIRONMENT – BEGINNING OF FISCAL YEAR 2023

Fiscal Year 2023 came on the heels of one of the worst quarters for equity and bond markets in recent history. During the second half of Fiscal Year 2022, a confluence of factors, including the ongoing conflict in Ukraine and its impact on commodity prices, COVID-related supply chain disruptions, labor shortages, and geopolitical tensions, led to historically high inflation figures in many countries. The United States (U.S.) Consumer Price Index (CPI), which captures the cost of a sample of goods and services representative of a typical consumer's spending, rose 9.1 percent from a year earlier ("year-over-year"), a level of inflation not seen in the U.S. since the early 1980s. This "headline" inflation led central banks, such as the U.S. Federal Reserve (Fed), the European Central Bank, and the Bank of England, to raise interest rates in response.

FIRST QUARTER OF FISCAL YEAR 2023 (JULY 1, 2022 TO SEPTEMBER 30, 2022)

In the first quarter of Fiscal Year 2023, the U.S. received some relief from high energy prices and headline inflation figures eased. However, "core" CPI, which excludes the more volatile food and energy costs, continued to rise. Inflation in the U.S. remained elevated as a strong labor market pushed wages up, buoying consumers' ability to maintain healthy spending levels in the face of rising prices. Shelter and medical care costs also remained high, contributing to a persistently high core inflation rate. In response, the Fed raised interest rates twice during the quarter, bringing the federal fund's target rate range to 3.00 to 3.25 percent.

During this quarter, investors also noted signs of slowing global growth. The purchasing managers indices (PMIs), which are a gauge of economic conditions based on purchasing managers sentiment, warned of declining new orders, slower export business, and rising levels of unsold inventory. In particular, the J.P.

Morgan Global Composite PMI for August signaled a slowdown in global economic activity for the first time since June 2020. Estimates of the U.S. gross domestic product (GDP), a measure of economic output, indicated that the U.S. economy had contracted in the first two calendar quarters of 2022, a so-called "technical recession". Persistently high core inflation and a negative economic outlook weighed on equity markets, and the MSCI Developed Markets World Investable Market Index (IMI), a broad measure of developed equity market returns, declined 6.1 percent for the quarter, further compounding a dismal 2022 for equity investors. Countries in emerging markets underperformed those in developed markets during the quarter, with the MSCI Emerging Markets IMI losing 10.8 percent. U.S. interest rates, as measured by the U.S. 10-year Treasury rate, were higher as well. They closed out the quarter at 3.8 percent, up 0.8 percent from the previous quarter. These higher interest rates negatively impacted the returns in the fixed income markets, and the Bloomberg U.S. Universal Index, a measure of the total U.S. dollar-denominated, fixed-rate, taxable bond market, lost 4.5 percent for the quarter.

SECOND QUARTER OF FISCAL YEAR 2023 (OCTOBER 1, 2022 TO DECEMBER 31, 2022)

The second quarter of Fiscal Year 2023 brought more signs of an impending slowdown in global manufacturing as respondents to PMI surveys noted a slump in new orders and rising inventory levels. On a positive note, GDP data from the Commerce Department indicated the U.S. economy had grown by 3.2 percent (annualized) in the third calendar quarter of 2022, as consumer spending helped the economy rebound from two prior quarters of contraction. Headline inflation remained high during the quarter but continued to trend downward, and core inflation finally began to subside as supply chain pressures eased. Inflation figures remained well outside of the Fed's desired range, and the labor market remained tight amid strong demand for workers. The Fed responded by raising its policy rate twice during the quarter. At the end of the quarter, the range for the Fed's target rate was 4.25 to 4.50 percent. The decline in inflation was positive for equity markets, and the MSCI Developed Markets World IMI returned 9.9 percent for the quarter. Emerging markets also performed well, with the MSCI Emerging Markets IMI up 9.5 percent. This helped ease some of the declines experienced in the equity markets throughout the calendar year 2022. In the fixed income markets, longer-maturity interest rates remained unchanged during the quarter despite the Fed's moves. Credit spreads narrowed in line with the positive equity market performance, and, combined with a lack of significant movements in long-term interest rates, fixed income indices enjoyed positive returns during the quarter. The Bloomberg U.S. Universal Index gained 2.2 percent for the quarter to close out a rough calendar year for fixed income investors.

THIRD QUARTER OF FISCAL YEAR 2023 (JANUARY 1, 2023 TO MARCH 31, 2023)

The third quarter of Fiscal Year 2023 began with a sense of optimism as many investors believed global central banks would halt interest rate hikes as inflation continued to retreat. This sentiment soon faded as February brought concerns that the global economy was overheating, which might necessitate keeping interest rates higher for longer. In March, fears of another global financial crisis took hold following the collapse of Silicon Valley Bank, the second-largest banking failure in U.S. history. This led to a major sell-off in the U.S. and European financial sectors. Overall, lower energy and oil prices, coupled with optimism about the reopening of China following three years of Covid-19 lockdowns, improved business sentiment during the quarter, as illustrated by a rebound in the S&P Global U.S. and European Composite PMIs. The U.S. labor market remained resilient as March non-farm payrolls showed continued job growth. Average hourly earnings rose by just 0.3 percent month over month, reflecting gradually decelerating wage pressures. The March CPI report showed headline inflation falling to 5.0 percent year-over-year, far from the peak of 9.1 percent in June 2022. Slowing growth rates in wages and housing costs signaled a continued downward trend in inflation. The Fed raised interest rates twice more during the quarter, bringing the target range to 4.75 to 5.0 percent, with Fed Chair Jay Powell warning that additional increases were still on the table. Developed equity markets enjoyed a positive quarter as the MSCI Developed Markets World IMI returned 7.3 percent. Emerging markets trailed well behind, with a return of 3.9 percent for the MSCI Emerging Markets IMI. Despite the robust equity markets and interest rate hikes, the U.S. 10-year Treasury yield declined by 0.4 percent to end the quarter at 3.5 percent. The Bloomberg U.S. Universal gained 2.9 percent for the quarter as a result of the falling yields.

FOURTH QUARTER OF FISCAL YEAR 2023 (APRIL 1, 2023 TO JUNE 30, 2023)

In the last quarter of Fiscal Year 2023, concerns about the U.S. "debt ceiling" took center stage. In January, the U.S. officially reached its statutory debt limit, commonly known as the "debt ceiling". The U.S. Treasury was able to extend the limit temporarily but warned it would exhaust its options by June 5th. Investors remained on edge as congressional negotiations dragged on. In late May, congressional members reached a compromise on legislation to suspend the debt ceiling, which was swiftly approved by Congress and signed into law by President Biden. The deal included concessions on spending, which were not expected to slow economic growth.

Meanwhile, there were signs that U.S. inflation might return to acceptable levels and the Fed might stop hiking rates. By June, headline inflation fell to 3.0 percent year-over-year amid a continued decline in energy costs. The U.S. unemployment rate increased in May from 3.4 to 3.7 percent, a larger-than-expected move, but the labor market remained historically tight. After increasing its target rate range to 5.0 to 5.25 percent in May, the Fed held off on further rate increases in June.

The quarter ended with strong equity markets as global investors reacted positively to slowing inflation and optimism that an end to the Fed's interest rate hikes was on the horizon. Enthusiasm about the latest breakthroughs in generative artificial intelligence also boosted tech stocks. The MSCI Developed Markets World IMI returned 6.4 percent for the quarter and 17.9 percent for the fiscal year that ended June 30, 2023. Emerging markets continued to trail developed markets, with the MSCI Emerging Markets IMI returning 1.6 percent for the quarter and 3.2 percent year-over-year.

Despite the Fed's decision to pause interest rate increases, the U.S. 10-year Treasury yield rose to end the quarter and fiscal year at 3.8 percent, an increase of 0.8 percentage points from the previous fiscal year. In fixed income markets, both investment grade and high yield spreads narrowed further, with year-over-year declines of 32 and 179 basis points, respectively. The Bloomberg U.S. Universal ended the quarter down 0.6 percent to close out Fiscal Year 2023 at a slight loss.

ANALYSIS OF CHANGES TO FIDUCIARY NET INVESTMENT POSITION

As shown in the following table, the fiduciary net investment position of the L&I Funds increased by $481.6 million during the fiscal year ended June 30, 2023. Net investment income increased fiduciary net investment position by $594.2 during the current fiscal year. Net withdrawals from the L&I Funds during the year decreased fiduciary net investment position by $112.6 million.

Net investment income increased by 123.0 percent from the previous fiscal year, mainly due to increases in realized and unrealized gains. These market related gains increased by 102.9 percent from the previous year as the result of significant increases in overall returns year over year, as discussed previously in the General Market Commentary. The current fiscal year return for the L&I Funds was 3.2 percent, compared to the prior year return of (12.1) percent.

Net withdrawals from the L&I Funds decreased by $184.1 million from the prior fiscal year. L&I requested lower withdrawals during the current fiscal year as a direct result of premium rate increases of 5.9 percent for the Accident account, 1.0 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, $436.2 million was transferred from the Accident Fund to the Pension Reserve 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 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 ($ Millions)

	Fiscal Year End June 30, 2023				Fiscal Year End June 30, 2022				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 (**)	$ 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%
Investment Income:										
Interest, Dividends, and Other Investment Income	510.5	2.4	0.8	513.7	465.4	0.7	0.1	466.2	47.5	10.2%
Realized and Unrealized Gains (Losses)	(426.6)	505.8	8.6	87.8	(2,448.6)	(588.2)	(1.8)	(3,038.6)	3,126.4	102.9%
Less: Investment Expenses	(5.1)	(1.5)	(0.7)	(7.3)	(5.1)	(1.7)	(0.4)	(7.2)	0.1	1.4%
Net Investment Income (Loss)	78.8	506.7	8.7	594.2	(1,988.3)	(589.2)	(2.1)	(2,579.6)	3,173.8	123.0%
Net Contributions (Withdrawals)	(113.2)	0.6	-	(112.6)	(297.2)	0.5	-	(296.7)	184.1	-62.0%
Transfers to Other Asset Classes	423.0	(449.0)	26.0	-	141.7	(171.7)	30.0	-	-	N/A
Ending Fiduciary Net Investment Position (**)	**$ 15,793.5**	**$ 3,127.1**	**$ 73.3**	**$ 18,993.9**	**$ 15,404.9**	**$ 3,068.8**	**$ 38.6**	**$ 18,512.3**	**$ 481.6**	**2.6%**
Increase (Decrease) in Fiduciary Net Investment Position	**$ 388.6**	**$ 58.3**	**$ 34.7**	**$ 481.6**						
Percent Change in Fiduciary Net Investment Position	**2.5%**	**1.9%**	**89.9%**	**2.6%**						
One Year Time Weighted Return - June 30, 2023	**0.5%**	**16.6%**	**22.6%**	**3.2%**						
One Year Time Weighted Return - June 30, 2022	**-11.2%**	**-16.3%**	**-7.8%**	**-12.1%**						

(*) Includes cash balances used for trading purposes

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

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

- ***Debt securities*** fiduciary net investment position increased by $388.6 million. Interest income net of expenses of $505.4 million was reinvested in debt securities during the current fiscal year. Realized and unrealized losses decreased balances in this asset class by $426.6 million. To maintain strategic asset allocation targets, $449.0 million in equity securities were sold and the proceeds were reinvested in debt securities. This was slightly offset by the sale of debt securities of $26.0 million and the proceeds were transferred to alternative assets to fund real estate capital calls and expenses. The fiduciary net investment position and performance of debt securities included $567.3 million of cash balances used for trading purposes.

Due to the rising interest rate environment, interest income on fixed income securities increased by $45.1 million from the previous fiscal year. Interest rates rose across global debt markets in response to inflation and central bank rate hikes during the fiscal year, increasing interest income earned year-over-year. The average coupon rate at June 30, 2023, ranged from 3.0 to 3.4 percent for the Accident Fund, Medical Aid Fund, and Pension Reserve Fund. This was an increase from the prior year average coupon rates, which ranged from 2.7 to 3.3 percent. Narrowing credit spreads in a raising rate environment contributed to positive bond market returns and drove returns significantly higher than the previous year.

Performance for the L&I fixed income portfolios was 0.5 percent for the fiscal year ended June 30, 2023, which tracked closely to their Comparable Market Indices (CMI) across each L&I Fund. The CMI benchmark returns for each individual fund ranged from 0.3 to 0.8 percent. The positive return was the result of a rising interest rate environment causing bond prices to decrease, which was offset by narrowing credit spreads during the fiscal year. The large increase in returns in the debt portfolio over the previous year decreased realized and unrealized losses by $2,022.0 million year-over-year.

See General Market Commentary for additional economic and market information.

- ***Equity securities*** fiduciary net investment position increased by $58.3 million from the prior fiscal year. Net realized and unrealized gains increased the fiduciary net investment position of equity securities by $505.8 million. The overall investment returns for equity securities in the current fiscal year was 16.6 percent, which was a significant increase from the prior fiscal year return of (16.3) percent. The substantial increase in equity returns caused an increase in net realized and unrealized gains over the previous fiscal year by $1,094.0 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 returned 16.5 percent.

  See General Market Commentary for additional economic and market information.

- ***Alternative Assets*** fiduciary net investment position increased by $34.7 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 22.6 percent, a significant increase from the prior fiscal year return of (7.8) percent. The L&I real estate portfolio provided strong returns in the fiscal year due to the appreciation of residential properties. This was true across L&I real estate holdings, but especially in the U.S. residential properties.

  See General Market Commentary for additional economic and market information.

The fair value of the L&I Fund's 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.

LABOR AND INDUSTRIES' FUNDS STATEMENT OF FIDUCIARY NET INVESTMENT POSITION
JUNE 30, 2023

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	$ 141,543,468	$ 243,686,257	$ 97,679,829	$ 84,434,577	$ 567,344,131	3.0%
DEBT SECURITIES						
Mortgage and Other Asset-Backed Securities	224,700,319	203,566,781	188,139,603	-	616,406,703	
Corporate Bonds	3,849,285,072	3,582,940,590	3,236,187,573	5,662,780	10,674,076,015	
U.S. Government and Agency Securities	944,524,541	895,623,086	846,564,055	14,205,859	2,700,917,541	
Foreign Government and Agency Securities	401,528,340	501,581,020	300,856,450	3,872,770	1,207,838,580	
Total Debt Securities	5,420,038,272	5,183,711,477	4,571,747,681	23,741,409	15,199,238,839	80.1%
EQUITY SECURITIES						
Collective Investment Trusts	1,090,335,679	1,449,091,401	587,807,577	-	3,127,234,657	
Total Equity Securities	1,090,335,679	1,449,091,401	587,807,577	-	3,127,234,657	16.5%
ALTERNATIVE INVESTMENTS						
Real Estate	27,093,014	26,092,213	20,130,085	-	73,315,312	
Total Alternative Investments	27,093,014	26,092,213	20,130,085	-	73,315,312	0.4%
Total Investments	6,679,010,433	6,902,581,348	5,277,365,172	108,175,986	18,967,132,939	100.0%
Investment Earnings Receivable	45,620,573	42,117,162	43,743,468	487,903	131,969,106	
Total Assets	6,724,631,006	6,944,698,510	5,321,108,640	108,663,889	19,099,102,045	
LIABILITIES						
Investment Accounts Payable	50,045,129	55,080,471	57,004	15,689	105,198,293	
Total Liabilities	50,045,129	55,080,471	57,004	15,689	105,198,293	
FIDUCIARY NET INVESTMENT POSITION	$ 6,674,585,877	$ 6,889,618,039	$ 5,321,051,636	$ 108,648,200	$ 18,993,903,752	

LABOR AND INDUSTRIES' FUNDS STATEMENT OF CHANGES IN FIDUCIARY NET INVESTMENT POSITION YEAR ENDED JUNE 30, 2023

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	$ 178,898,615	$ 161,956,971	$ 168,900,018	$ 3,901,092	$ 513,656,696
Net Realized Capital Gains (Losses)	62,250,695	77,328,121	5,637,800	(596,260)	144,620,356
Unrealized Gains (Losses)	(34,031,459)	44,149,990	(67,543,616)	600,924	(56,824,161)
Less:					
Investment Expenses	(1,371,598)	(1,469,264)	(895,770)	(192,262)	(3,928,894)
WSIB Operating Expenses	(1,206,412)	(1,202,359)	(903,921)	(20,750)	(3,333,442)
Net Investment Income (Loss)	204,539,841	280,763,459	105,194,511	3,692,744	594,190,555
Equity Transfer	(436,242,000)	-	436,242,000	-	-
Net Amount Contributed (Withdrawn)	19,256,412	(40,505,641)	(109,911,079)	18,540,750	(112,619,558)
Increase (Decrease) in Fiduciary Net Investment Position	(212,445,747)	240,257,818	431,525,432	22,233,494	481,570,997
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
FIDUCIARY NET INVESTMENT POSITION, JUNE 30, 2023	$ 6,674,585,877	$ 6,889,618,039	$ 5,321,051,636	$ 108,648,200	$ 18,993,903,752

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 or the results of operations of the WSIB or the Washington State Department of 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.

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 fair 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, 2023, 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, 2023, 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, 2023. 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, 2023, 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, 2023.

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, 2023, consisted of $1.1 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. 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, 2023, the only derivative instrument securities held directly by the L&I Funds were collateralized mortgage obligations of $213.6 million.

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 method used is to 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 L&I Funds receive fair value prices for publicly traded debt securities directly from the 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 (CIT's) 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, 2023:

		Fair Value Measurements Using:		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
INVESTMENTS				
DEBT SECURITIES				
Mortgage and Other Asset-Backed Securities	$ 616,406,703	$ -	$ 616,406,703	$ -
Corporate Bonds	10,674,076,015	-	10,674,076,015	-
U.S. and Foreign Government and Agency Securities	3,908,756,121	-	3,908,756,121	-
Total Debt Securities	15,199,238,839	-	15,199,238,839	-
Total Investments By Fair Value Level	$ 15,199,238,839	$ -	$ 15,199,238,839	$ -
INVESTMENTS MEASURED AT NET ASSET VALUE				
Collective Investment Trusts	3,127,234,657			
Real Estate	73,315,312			
Total Investments Measured at Fair Value	$ 18,399,788,808			

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 TRUSTS FUND (INVESTMENTS MEASURED AT NET ASSET VALUE)

The L&I Funds invest in a single Collective Investment Trusts 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 $73.3 million (0.4 percent of total investments) as of June 30, 2023. 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, 2023.

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 portfolio comprised of six real estate investments at the end of the fiscal year. 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 6. 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 Fund's 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 value at the time of purchase, nor shall its fair value exceed 6 percent of the Fund's fair value at any time (RCW 43.33A.140).

The total fair 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 fair 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 fair value shall not exceed 5 percent of the total fair 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 to take a gradual implementation approach to reach the strategic asset allocation target for real estate given the liquidity constraints of the asset class. When the real estate allocation is below its target, the amount of the under allocation will be invested in fixed income.

The long-term strategic asset allocation for the L&I Funds is shown below:

	Fixed Income	Range	Equity	Range	Real Estate	Range
Accident Fund	80%	± 6%	15%	± 4%	5%	± 2%
Pension Reserve Fund	85%	± 5%	10%	± 3%	5%	± 2%
Medical Aid Fund	75%	± 7%	20%	± 5%	5%	± 2%
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 one or more commingled index funds. The commingled fund manager(s) 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 four 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 seven years.
Pension Reserve Fund (610): within plus or minus 25 percent of a duration target of ten years.
Medical Aid Fund (609): within plus or minus 25 percent of a duration target of six 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.

Total fair 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 fair 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 fair value of below investment grade mortgage-backed, asset-backed, and commercial mortgage-backed securities shall not exceed 5 percent of the total fair 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 majority of 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.

SCHEDULE 1

SCHEDULE OF MATURITIES AND CREDIT RATINGS

		Maturity					
Investment Type	**Total Fair Value**	**Less than 1 year**	**1-5 years**	**6-10 years**	**More than 10 years**	**Effective Duration ***	**Credit Rating**
Mortgage and Other Asset-Backed Securities	$ 616,406,703	$ 6,634,825	$ 526,507,190	$ 83,264,688	$ -	3.8	Aaa
Corporate Bonds	10,674,076,015	356,549,750	3,488,730,321	3,377,417,129	3,451,378,815	7.3	Schedule 2
U.S. Government and Agency Securities	2,700,917,541	338,485,773	1,175,089,553	28,924,864	1,158,417,351	8.5	Aaa
Foreign Government and Agencies	1,207,838,580	76,176,570	491,049,280	400,550,800	240,061,930	6.1	Schedule 2
	15,199,238,839	$ 777,846,918	$ 5,681,376,344	$ 3,890,157,481	$ 4,849,858,096	7.3	
Investments Not Required to be Categorized							
Collective Investment Trusts	3,127,234,657						
Cash and Cash Equivalents	567,344,131						
Real Estate	73,315,312						
Total Investments Not Categorized	3,767,894,100						
Total L&I Funds Investments	$ 18,967,132,939						

* Duration excludes cash and cash equivalents

SCHEDULE 2

ADDITIONAL CREDIT RATINGS DISCLOSURE

Moody's Equivalent Credit Rating	Investment Type: Corporate Bonds	Investment Type: Foreign Government and Agency Securities
Aaa	$ 366,301,100	$ 67,964,860
Aa1	200,197,250	202,741,900
Aa2	111,673,650	162,604,250
Aa3	893,701,223	142,624,310
A1	1,533,694,554	336,724,550
A2	1,641,556,014	77,270,430
A3	1,994,356,853	-
Baa1	1,987,375,258	-
Baa2	1,388,682,343	152,032,080
Baa3	380,754,590	23,363,700
Ba1 or Lower	175,783,180	42,512,500
Total	$ 10,674,076,015	$ 1,207,838,580

SCHEDULE 3

FOREIGN CURRENCY EXPOSURE

Foreign Currency Denomination	Investment Type In U.S. Dollar Equivalent: Equity Securities	Investment Type In U.S. Dollar Equivalent: Percent of Total Investments
AUSTRALIAN DOLLAR	$ 60,278,527	0.3%
BRAZILIAN REAL	18,778,081	0.1%
CANADIAN DOLLAR	90,892,755	0.5%
SWISS FRANC	72,890,646	0.4%
YUAN RENMINBI	13,718,037	0.1%
DANISH KRONE	23,504,710	0.1%
EURO CURRENCY	253,079,175	1.3%
POUND STERLING	116,325,864	0.6%
HONG KONG DOLLAR	87,501,955	0.5%
JAPANESE YEN	187,025,776	1.0%
SOUTH KOREAN WON	42,893,105	0.2%
MEXICAN PESO	9,321,785	0.0%
SAUDI RIYAL	14,119,665	0.1%
SWEDISH KRONA	28,004,330	0.1%
SINGAPORE DOLLAR	10,499,118	0.1%
NEW TAIWAN DOLLAR	55,945,726	0.3%
SOUTH AFRICAN RAND	10,868,662	0.1%
OTHER (MISC)	53,824,016	0.3%
Total Foreign Currency Exposure	$ 1,149,471,933	6.1%

EideBailly

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 Labor and Industries' Funds as of and for the year ended June 30, 2023, 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 22, 2023.

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.

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

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.

Eide Bailly LLP

Boise, Idaho
September 22, 2023

PERMANENT FUNDS

CPAs & BUSINESS ADVISORS

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, 2023, 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, 2023, and the changes in fiduciary net investment position for the year then ended in accordance 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* issued by the Comptroller General of the United States (*Government Auditing Standards*). 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.

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

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

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 GAAS, 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 22, 2023 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.

Eide Bailly LLP

Boise, Idaho
September 22, 2023

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, 2023. 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, 2023. The summarized change in fiduciary net investment position table compares the fiduciary net investment position of each major investment classification at June 30, 2023, with those at June 30, 2022. 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

MARKET ENVIRONMENT – BEGINNING OF FISCAL YEAR 2023

Fiscal Year 2023 came on the heels of one of the worst quarters for equity and bond markets in recent history. During the second half of Fiscal Year 2022, a confluence of factors, including the ongoing conflict in Ukraine and its impact on commodity prices, COVID-related supply chain disruptions, labor shortages, and geopolitical tensions, led to historically high inflation figures in many countries. The United States (U.S.) Consumer Price Index (CPI), which captures the cost of a sample of goods and services representative of a typical consumer's spending, rose 9.1 percent from a year earlier ("year-over-year"), a level of inflation not seen in the U.S. since the early 1980s. This "headline" inflation led central banks, such as the U.S. Federal Reserve (Fed), the European Central Bank, and the Bank of England, to raise interest rates in response.

FIRST QUARTER OF FISCAL YEAR 2023 (JULY 1, 2022 TO SEPTEMBER 30, 2022)

In the first quarter of Fiscal Year 2023, the U.S. received some relief from high energy prices and headline inflation figures eased. However, "core" CPI, which excludes the more volatile food and energy costs, continued to rise. Inflation in the U.S. remained elevated as a strong labor market pushed wages up, buoying consumers' ability to maintain healthy spending levels in the face of rising prices. Shelter and medical care costs also remained high, contributing to a persistently high core inflation rate. In response, the Fed raised interest rates twice during the quarter, bringing the federal fund's target rate range to 3.00 to 3.25 percent.

During this quarter, investors also noted signs of slowing global growth. The purchasing managers indices (PMIs), which are a gauge of economic conditions based on purchasing managers sentiment, warned of declining new orders, slower export business, and rising levels of unsold inventory. In particular, the J.P.

Morgan Global Composite PMI for August signaled a slowdown in global economic activity for the first time since June 2020. Estimates of the U.S. gross domestic product (GDP), a measure of economic output, indicated that the U.S. economy had contracted in the first two calendar quarters of 2022, a so-called “technical recession”. Persistently high core inflation and a negative economic outlook weighed on equity markets, and the MSCI Developed Markets World Investable Market Index (IMI), a broad measure of developed equity market returns, declined 6.1 percent for the quarter, further compounding a dismal 2022 for equity investors. Countries in emerging markets underperformed those in developed markets during the quarter, with the MSCI Emerging Markets IMI losing 10.8 percent. U.S. interest rates, as measured by the U.S. 10-year Treasury rate, were higher as well. They closed out the quarter at 3.8 percent, up 0.8 percent from the previous quarter. These higher interest rates negatively impacted the returns in the fixed income markets, and the Bloomberg U.S. Universal Index, a measure of the total U.S. dollar-denominated, fixed-rate, taxable bond market, lost 4.5 percent for the quarter.

SECOND QUARTER OF FISCAL YEAR 2023 (OCTOBER 1, 2022 TO DECEMBER 31, 2022)

The second quarter of Fiscal Year 2023 brought more signs of an impending slowdown in global manufacturing as respondents to PMI surveys noted a slump in new orders and rising inventory levels. On a positive note, GDP data from the Commerce Department indicated the U.S. economy had grown by 3.2 percent (annualized) in the third calendar quarter of 2022, as consumer spending helped the economy rebound from two prior quarters of contraction. Headline inflation remained high during the quarter but continued to trend downward, and core inflation finally began to subside as supply chain pressures eased. Inflation figures remained well outside of the Fed’s desired range, and the labor market remained tight amid strong demand for workers. The Fed responded by raising its policy rate twice during the quarter. At the end of the quarter, the range for the Fed’s target rate was 4.25 to 4.50 percent. The decline in inflation was positive for equity markets, and the MSCI Developed Markets World IMI returned 9.9 percent for the quarter. Emerging markets also performed well, with the MSCI Emerging Markets IMI up 9.5 percent. This helped ease some of the declines experienced in the equity markets throughout the calendar year 2022. In the fixed income markets, longer-maturity interest rates remained unchanged during the quarter despite the Fed’s moves. Credit spreads narrowed in line with the positive equity market performance, and, combined with a lack of significant movements in long-term interest rates, fixed income indices enjoyed positive returns during the quarter. The Bloomberg U.S. Universal Index gained 2.2 percent for the quarter to close out a rough calendar year for fixed income investors.

THIRD QUARTER OF FISCAL YEAR 2023 (JANUARY 1, 2023 TO MARCH 31, 2023)

The third quarter of Fiscal Year 2023 began with a sense of optimism as many investors believed global central banks would halt interest rate hikes as inflation continued to retreat. This sentiment soon faded as February brought concerns that the global economy was overheating, which might necessitate keeping interest rates higher for longer. In March, fears of another global financial crisis took hold following the collapse of Silicon Valley Bank, the second-largest banking failure in U.S. history. This led to a major sell-off in the U.S. and European financial sectors. Overall, lower energy and oil prices, coupled with optimism about the reopening of China following three years of Covid-19 lockdowns, improved business sentiment during the quarter, as illustrated by a rebound in the S&P Global U.S. and European Composite PMIs. The U.S. labor market remained resilient as March non-farm payrolls showed continued job growth. Average hourly earnings rose by just 0.3 percent month over month, reflecting gradually decelerating wage pressures. The March CPI report showed headline inflation falling to 5.0 percent year-over-year, far from the peak of 9.1 percent in June 2022. Slowing growth rates in wages and housing costs signaled a continued downward trend in inflation. The Fed raised interest rates twice more during the quarter, bringing the target range to 4.75 to 5.0 percent, with Fed Chair Jay Powell warning that additional increases were still on the table. Developed equity markets enjoyed a positive quarter as the MSCI Developed Markets World IMI returned 7.3 percent. Emerging markets trailed well behind, with a return of 3.9 percent for the MSCI Emerging Markets IMI. Despite the robust equity markets and interest rate hikes, the U.S. 10-year Treasury yield declined by 0.4 percent to end the quarter at 3.5 percent. The Bloomberg U.S. Universal gained 2.9 percent for the quarter as a result of the falling yields.

FOURTH QUARTER OF FISCAL YEAR 2023 (APRIL 1, 2023 TO JUNE 30, 2023)

In the last quarter of Fiscal Year 2023, concerns about the U.S. “debt ceiling” took center stage. In January, the U.S. officially reached its statutory debt limit, commonly known as the “debt ceiling”. The U.S. Treasury was able to extend the limit temporarily but warned it would exhaust its options by June 5th. Investors remained on edge as congressional negotiations dragged on. In late May, congressional members reached a compromise on legislation to suspend the debt ceiling, which was swiftly approved by Congress and signed into law by President Biden. The deal included concessions on spending, which were not expected to slow economic growth.

Meanwhile, there were signs that U.S. inflation might return to acceptable levels and the Fed might stop hiking rates. By June, headline inflation fell to 3.0 percent year-over-year amid a continued decline in energy costs. The U.S. unemployment rate increased in May from 3.4 to 3.7 percent, a larger-than-expected move, but the labor market remained historically tight. After increasing its target rate range to 5.0 to 5.25 percent in May, the Fed held off on further rate increases in June.

The quarter ended with strong equity markets as global investors reacted positively to slowing inflation and optimism that an end to the Fed’s interest rate hikes was on the horizon. Enthusiasm about the latest breakthroughs in generative artificial intelligence also boosted tech stocks. The MSCI Developed Markets World IMI returned 6.4 percent for the quarter and 17.9 percent for the fiscal year that ended June 30, 2023. Emerging markets continued to trail developed markets, with the MSCI Emerging Markets IMI returning 1.6 percent for the quarter and 3.2 percent year-over-year.

Despite the Fed’s decision to pause interest rate increases, the U.S. 10-year Treasury yield rose to end the quarter and fiscal year at 3.8 percent, an increase of 0.8 percentage points from the previous fiscal year. In fixed income markets, both investment grade and high yield spreads narrowed further, with year-over-year declines of 32 and 179 basis points, respectively. The Bloomberg U.S. Universal ended the quarter down 0.6 percent to close out Fiscal Year 2023 at a slight loss.

ANALYSIS OF CHANGES TO FIDUCIARY NET INVESTMENT POSITION

As shown in the following table, the fiduciary net investment position of the Permanent Funds increased by $70.5 million during the fiscal year ended June 30, 2023. Net contributions from the Department of Natural Resources (DNR) on behalf of the Permanent Funds during the year increased fiduciary net investment position by $20.2 million and were mainly invested in fixed income securities. Net investment income increased the fiduciary net investment position by $82.8 million due to a 127.2 percent increase in realized and unrealized gains from significant increases in market returns year-over-year. Distributable net investment income (referred to as DNII and excludes unrealized gains and losses) of $32.6 million was distributed to the state colleges and universities pursuant to state laws, reducing the fiduciary net investment position.

Net investment income increased by $236.6 million during the current fiscal year as compared to the prior year for the following reasons:

- DNII in the Commingled Monthly Bond Fund (CMBF) increased by $1.9 million over the previous fiscal year. Interest rates rose across global debt markets in response to inflation and central bank rate hikes during the fiscal year. The average coupon rate in the CMBF increased from 2.5 to 2.9 percent, and interest earned and distributed during the current fiscal year increased accordingly. Capital gains realized and distributed in the current fiscal year increased slightly over the previous year.

- DNII in the Commingled Monthly Equity Fund (CMEF) decreased by $0.7 million compared to the previous fiscal year. Dividend yields decreased within the CMEF by 25 basis points and dividends received and distributed declined. Capital gains realized and distributed in the current fiscal year declined slightly over the previous year.

- Realized and unrealized losses in debt securities decreased by $75.6 million as the result of significant increases in debt returns during the current fiscal year. The fixed income portfolio, which represents 56.8 percent of invested balances at year end, returned 0.3 percent in the current fiscal year, as compared to the prior fiscal year return of (9.8) percent.

- Realized and unrealized gains in equity securities increased by $159.8 million as the result of significant increases in equity returns during the current fiscal year. The equity portfolio, which represents 43.1 percent of invested balances at year end, returned 18.1 percent in the current fiscal year, as compared to the prior fiscal year return of (14.6) percent.

  See General Market Commentary for additional economic and market information.

Net contributions from DNR decreased by $1.4 million from the previous fiscal year. The contributions received from DNR each year are dependent on timber and land sales and are held as corpus on behalf of the Permanent Funds. These contributions are directly influenced by the volume of sales, timber and land prices, and other economic factors which change from year to year and impact the amount available for the WSIB to invest in securities.

Distributions to the beneficiary funds increased by $1.2 million and are directly correlated to the DNII of each commingled fund as reported in the financial statements and discussed previously. DNII includes cash basis interest, dividends, and 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.

Investment related receivables and payables are reflected in each asset class’s fiduciary net investment position in the following table. Open foreign exchange contracts and unsettled investment trades pending over year end comprise most of these balances. The balances in open foreign exchange contracts fluctuate based on the trading needs of investment managers. Unsettled investment trades pending over year end vary based on the timing of additional cash flows, market fluctuations, and rebalancing to strategic investment targets. Accordingly, there is minimal correlation between open foreign exchange contracts or pending trades to invested balances, which can vary substantially from year to year.

Summarized Change in Fiduciary Net Investment Position and Returns by Asset Class	Fiscal Year End June 30, 2023				Fiscal Year End June 30, 2022				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 (*)	$ 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%
Investment Income:										
Interest, Dividends, and Other Investment Income	25,077	20,183,605	12,582,006	32,790,688	2,083	18,277,877	13,243,076	31,523,036	1,267,652	4.0%
Realized and Unrealized Gains (Losses)	-	(18,297,676)	68,556,037	50,258,361	-	(93,874,235)	(91,234,152)	(185,108,387)	235,366,748	127.2%
Less: Investment Expenses	(1,590)	(123,469)	(87,308)	(212,367)	(1,782)	(116,530)	(80,322)	(198,634)	13,733	6.9%
Net Investment Income (Loss)	23,487	1,762,460	81,050,735	82,836,682	301	(75,712,888)	(78,071,398)	(153,783,985)	236,620,667	153.9%
Contributions	20,239,000	-	-	20,239,000	21,601,000	-	-	21,601,000	(1,362,000)	-6.3%
Withdrawals and Distributions	(25,194)	(20,054,286)	(12,496,161)	(32,575,641)	(7,283)	(18,157,766)	(13,164,916)	(31,329,965)	1,245,676	4.0%
Transfers Between Asset Classes	(20,284,449)	18,010,419	2,274,030	-	(25,204,549)	25,201,997	2,552	-	-	N/A
Ending Fiduciary Net Investment Position (*)	**$ 1,230,341**	**$ 688,870,944**	**$ 523,061,578**	**$ 1,213,162,863**	**$ 1,277,497**	**$ 689,152,351**	**$ 452,232,974**	**$ 1,142,662,822**	**$ 70,500,041**	**6.2%**
Increase (Decrease) in Fiduciary Net Investment Position	**$ (47,156)**	**$ (281,407)**	**$ 70,828,604**	**$ 70,500,041**						
Percent Change in Fiduciary Net Investment Position	**-3.7%**	**0.0%**	**15.7%**	**6.2%**						
One Year Time Weighted Return - June 30, 2023	**3.5%**	**0.3%**	**18.1%**	**7.3%**						
One Year Time Weighted Return - June 30, 2022	**0.2%**	**-9.8%**	**-14.6%**	**-11.8%**						

(*) 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 slightly during the fiscal year. 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 reinvestment to other asset classes. Cash returns for the one-year period ended June 30, 2023, increased over the prior fiscal year to 3.5 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 350 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. Realized and unrealized losses for the fiscal year were $18.3 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, $18.0 million of contributions received from DNR were invested in the fixed income portfolio, offsetting the decline for market related losses. Interest, and other investment income net of investment expenses of $20.0 million, was received by the fund and subsequently distributed to the beneficiary funds.

  The debt securities held within the Permanent Funds are invested in the CMBF managed by the WSIB. Performance of the CMBF was 0.3 percent in the current fiscal year, which was higher than the previous year return of (9.8) percent. Narrowing of credit spreads in a raising rate environment contributed to positive bond market returns and drove returns significantly higher than the previous year. The current year return of the CMBF outperformed its benchmark, the Bloomberg U.S. Aggregate Bond Index, which returned (0.9) 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.

See General Market Commentary for additional economic and market information.

- ***Equity securities*** fiduciary net investment position increased by $70.8 million. Dividend and other investment income net of investment expenses of $12.5 million was earned by the CMEF and subsequently distributed to the beneficiary funds. Realized and unrealized gains increased the portfolio by $68.6 million, the result of positive returns in the equity markets. The overall investment return for the CMEF in the current fiscal year was 18.1 percent, a significant increase from the prior fiscal year return of (14.6) 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 2.5 percent. At the same time, the strategy attempts to minimize realized capital gains by limiting portfolio turnover. The total portfolio returned 18.1 percent during the fiscal year, which outperformed its global developed-markets benchmark return, the MSCI World Investable Market Index (MSCI World IMI), of 17.9 percent. The stronger performance of higher dividend yielding stocks modestly added to returns in the fund relative to the benchmark.

  See General Market Commentary for additional economic and market information.

The fair value of the Permanent Fund's 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.

PERMANENT FUNDS STATEMENT OF FIDUCIARY NET INVESTMENT POSITION
JUNE 30, 2023

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	$ 20,388	$ 532,811	$ 94,569	$ 52,809	$ 508,552	$ 22,115	$ 1,231,244	0.1%
Commingled Monthly Bond Fund	298,651	162,955,248	179,176,231	138,913,000	182,869,542	24,657,734	688,870,406	56.8%
Collective Investment Trusts Monthly Equity Fund	-	121,444,160	139,647,147	107,000,379	136,146,192	18,823,311	523,061,189	43.1%
Total Investments	319,039	284,932,219	318,917,947	245,966,188	319,524,286	43,503,160	1,213,162,839	100.0%
Investment Earnings Receivable	714	656,650	736,896	568,035	736,397	100,426	2,799,118	
Total Assets	319,753	285,588,869	319,654,843	246,534,223	320,260,683	43,603,586	1,215,961,957	
LIABILITIES								
Distributions and Other Payables	712	657,621	736,610	567,819	735,478	100,854	2,799,094	
FIDUCIARY NET INVESTMENT POSITION	$ 319,041	$ 284,931,248	$ 318,918,233	$ 245,966,404	$ 319,525,205	$ 43,502,732	$ 1,213,162,863	

PERMANENT FUNDS STATEMENT OF CHANGES IN FIDUCIARY NET INVESTMENT POSITION
YEAR ENDED JUNE 30, 2023

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	$ 9,533	$ 7,635,626	$ 8,644,951	$ 6,692,160	$ 8,645,277	$ 1,163,141	$ 32,790,688
Unrealized Gains (Losses)	(8,096)	11,679,881	13,491,068	10,228,719	13,003,238	1,863,551	50,258,361
Less:							
Investment Expenses	(37)	(1,398)	(1,151)	(803)	(1,361)	(259)	(5,009)
WSIB Operating Expenses	(55)	(48,185)	(54,756)	(42,409)	(54,630)	(7,323)	(207,358)
Net Investment Income (Loss)	1,345	19,265,924	22,080,112	16,877,667	21,592,524	3,019,110	82,836,682
Other Changes in Fiduciary Net Investment Position							
Contributions	-	8,950,000	2,785,000	663,000	5,939,000	1,902,000	20,239,000
Withdrawals and Distributions	(8,316)	(7,585,338)	(8,588,975)	(6,648,871)	(8,588,617)	(1,155,524)	(32,575,641)
Increase (Decrease) in Fiduciary Net Investment Position	(6,971)	20,630,586	16,276,137	10,891,796	18,942,907	3,765,586	70,500,041
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
FIDUCIARY NET INVESTMENT POSITION, JUNE 30, 2023	$ 319,041	$ 284,931,248	$ 318,918,233	$ 245,966,404	$ 319,525,205	$ 43,502,732	$ 1,213,162,863

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 or the 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 2023 was $629,677. Securities lending expenses during the fiscal year totaled $426,801.

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 fair 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, 2023, 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, 2023. 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, 2023.

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, 2023, consisted of $162.8 million (excludes U.S. dollar denominated securities) invested in the CMEF. Foreign currency exposure for the Permanent Funds is 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, 2023, the fair value of the securities on loan in the CMEF was approximately $24.0 million. The securities on loan are reported in Schedule 3 in their respective categories. At June 30, 2023, cash collateral received totaling $17.2 million was reported as a securities lending obligation, and the fair value of the reinvested cash collateral totaling $17.2 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, 2023.

Summarized Change in Securities on Loan and Collateral ($ Millions)			
	Cash Collateral	Non-Cash Collateral	Total
Repurchase Agreements	$ 3.3	$ -	$ 3.3
Yankee Certificate of Deposit	4.3	-	4.3
Commercial Paper	5.0	-	5.0
U.S. Treasuries	1.3	6.8	8.1
Cash Equivalents and other	3.3	-	3.3
Total Collateral Held	**$ 17.2**	**$ 6.8**	**$ 24.0**

During Fiscal Year 2023, securities lending transactions could be terminated on demand by either the Permanent Funds or the borrower. As of June 30, 2023, the collateral held had an average duration of 12.84 days and an average weighted final maturity of 99.61 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 2023, 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 2023, 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, 2023, the only derivative instrument securities were collateralized mortgage obligations of $13.0 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 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, 2023:

		Fair Value
INVESTMENTS - PERMANENT FUNDS		
INVESTMENTS MEASURED AT NET ASSET VALUE		
Commingled Monthly Bond Fund	$	688,870,406
Collective Investment Trusts Monthly Equity Fund		523,061,189
Total Investments at Net Asset Value		1,211,931,595
Total Investments Measured at Fair Value	$	1,211,931,595

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 fair value at the time of purchase, nor shall its fair value exceed 6 percent of the fund's fair 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.

Investment Grade is defined 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.

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%	± 5%
Global Equity	40%	± 5%

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.

SCHEDULE 1

COMMINGLED MONTHLY BOND FUND SCHEDULE OF FIDUCIARY NET INVESTMENT POSITION AND MATURITIES

		Maturity					
Investment Type	Total Fair Value	Less than 1 year	1-5 years	6-10 years	More than 10 years	Effective Duration*	Credit Rating
Mortgage and Other Asset-Backed Securities	$ 85,585,673	$ 39,181	$ 66,892,879	$ 18,653,613	$ -	4.3	Aaa
Corporate Bonds	306,373,068	14,677,800	98,463,150	92,250,100	100,982,018	7.3	Schedule 2
U.S. Government and Agency Securities	245,262,424	58,298,596	71,982,422	23,685,156	91,296,250	7.3	Aaa
Foreign Government and Agency Securities	30,977,550	4,890,150	18,536,150	4,249,850	3,301,400	4.6	Schedule 2
Total Debt Securities	668,198,715	$ 77,905,727	$ 255,874,601	$ 138,838,719	$ 195,579,668	6.78*	
Investments Not Required to be Categorized							
Cash and Cash Equivalents	17,538,207						
Investment Earnings Receivable	4,595,708						
Total Commingled Monthly Bond Fund Assets	690,332,630						
Distributions and other payables	(1,462,224)						
CMBF Fiduciary Net Investment Position - June 30, 2023	$ 688,870,406						

* Duration excludes cash and cash equivalents

SCHEDULE 2

COMMINGLED MONTHLY BOND FUND CREDIT RATING (MOODY'S)

	Investment Type	
Moody's Credit Rating	Corporate Bonds	Foreign Government and Agency Securities
Aa1	$ 3,452,600	$ 4,665,450
Aa2	4,705,850	4,790,850
Aa3	15,637,700	4,611,650
A1	40,876,910	16,909,600
A2	60,034,500	-
A3	63,030,950	-
Baa1	49,365,808	-
Baa2	55,254,950	-
Baa3	14,013,800	-
Total	$ 306,373,068	$ 30,977,550

SCHEDULE 3

COMMINGLED MONTHLY EQUITY FUND SCHEDULE OF FIDUCIARY NET INVESTMENT POSITION

	Total Fair Value
Classification	
Cash and Cash Equivalents	$ 2,569,456
Common and Preferred Stock	506,374,108
Real Estate Investment Trusts	14,730,787
Depository Receipts and Other Miscellaneous	641,011
Total Investments	524,315,362
Income and Other Receivables	1,260,554
Collateral Held Under Securities Lending Agreements	17,143,825
Distributions and Other Payables	(2,514,727)
Obligations Under Securities Lending Agreements	(17,143,825)
CMEF Fiduciary Net Investment Position June 30, 2023	**$ 523,061,189**

SCHEDULE 4

COMMINGLED MONTHLY EQUITY FUND SCHEDULE OF FOREIGN CURRENCY

	Investment Type In U.S. Dollar Equivalent			
Foreign Currency Denomination	Cash and Cash Equivalents	Equity Securities	Total	Percent of Total CMEF Funds Investments
AUSTRALIAN DOLLAR	$ 68,881	$ 11,878,397	$ 11,947,278	2.3%
CANADIAN DOLLAR	86,787	15,874,777	15,961,564	3.0%
SWISS FRANC	4,091	13,593,798	13,597,889	2.6%
EURO CURRENCY	140,638	47,035,792	47,176,430	9.0%
POUND STERLING	131,110	21,823,564	21,954,674	4.2%
DANISH KRONE	7,897	4,254,672	4,262,569	0.8%
JAPANESE YEN	1,151,228	34,076,777	35,228,005	6.7%
SWEDISH KRONA	49,204	4,969,316	5,018,520	1.0%
OTHER (MISC)	171,417	7,508,053	7,679,470	1.5%
Total Foreign Currency Exposure	$ 1,811,253	$ 161,015,146	$ 162,826,399	31.1%

EideBailly®

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 Permanent Funds as of and for the year ended June 30, 2023, 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 22, 2023.

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.

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.

Eide Bailly LLP

Boise, Idaho
September 22, 2023

GUARANTEED EDUCATION TUITION FUND

CPAs & BUSINESS ADVISORS

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, 2023, 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, 2023, and the changes in fiduciary net investment position for the year then ended in accordance 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* issued by the Comptroller General of the United States (*Government Auditing Standards*). 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.

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 GAAS, 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 22, 2023 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.

Eide Bailly LLP

Boise, Idaho
September 22, 2023

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, 2023. 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, 2023. The summarized change in fiduciary net investment position table compares the fiduciary net investment position of each major investment classification at June 30, 2023, with those at June 30, 2022. 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

MARKET ENVIRONMENT – BEGINNING OF FISCAL YEAR 2023

Fiscal Year 2023 came on the heels of one of the worst quarters for equity and bond markets in recent history. During the second half of Fiscal Year 2022, a confluence of factors, including the ongoing conflict in Ukraine and its impact on commodity prices, COVID-related supply chain disruptions, labor shortages, and geopolitical tensions, led to historically high inflation figures in many countries. The United States (U.S.) Consumer Price Index (CPI), which captures the cost of a sample of goods and services representative of a typical consumer's spending, rose 9.1 percent from a year earlier ("year-over-year"), a level of inflation not seen in the U.S. since the early 1980s. This "headline" inflation led central banks, such as the U.S. Federal Reserve (Fed), the European Central Bank, and the Bank of England, to raise interest rates in response.

FIRST QUARTER OF FISCAL YEAR 2023 (JULY 1, 2022 TO SEPTEMBER 30, 2022)

In the first quarter of Fiscal Year 2023, the U.S. received some relief from high energy prices and headline inflation figures eased. However, "core" CPI, which excludes the more volatile food and energy costs, continued to rise. Inflation in the U.S. remained elevated as a strong labor market pushed wages up, buoying consumers' ability to maintain healthy spending levels in the face of rising prices. Shelter and medical care costs also remained high, contributing to a persistently high core inflation rate. In response, the Fed raised interest rates twice during the quarter, bringing the federal fund's target rate range to 3.00 to 3.25 percent.

During this quarter, investors also noted signs of slowing global growth. The purchasing managers indices (PMIs), which are a gauge of economic conditions based on purchasing managers sentiment, warned of declining new orders, slower export business, and rising levels of unsold inventory. In particular, the J.P. Morgan Global Composite PMI for August signaled a slowdown in global economic activity for the first time since June 2020. Estimates of the U.S. gross domestic

product (GDP), a measure of economic output, indicated that the U.S. economy had contracted in the first two calendar quarters of 2022, a so-called "technical recession". Persistently high core inflation and a negative economic outlook weighed on equity markets, and the MSCI Developed Markets World Investable Market Index (IMI), a broad measure of developed equity market returns, declined 6.1 percent for the quarter, further compounding a dismal 2022 for equity investors. Countries in emerging markets underperformed those in developed markets during the quarter, with the MSCI Emerging Markets IMI losing 10.8 percent. U.S. interest rates, as measured by the U.S. 10-year Treasury rate, were higher as well. They closed out the quarter at 3.8 percent, up 0.8 percent from the previous quarter. These higher interest rates negatively impacted the returns in the fixed income markets, and the Bloomberg U.S. Universal Index, a measure of the total U.S. dollar-denominated, fixed-rate, taxable bond market, lost 4.5 percent for the quarter.

SECOND QUARTER OF FISCAL YEAR 2023 (OCTOBER 1, 2022 TO DECEMBER 31, 2022)

The second quarter of Fiscal Year 2023 brought more signs of an impending slowdown in global manufacturing as respondents to PMI surveys noted a slump in new orders and rising inventory levels. On a positive note, GDP data from the Commerce Department indicated the U.S. economy had grown by 3.2 percent (annualized) in the third calendar quarter of 2022, as consumer spending helped the economy rebound from two prior quarters of contraction. Headline inflation remained high during the quarter but continued to trend downward, and core inflation finally began to subside as supply chain pressures eased. Inflation figures remained well outside of the Fed's desired range, and the labor market remained tight amid strong demand for workers. The Fed responded by raising its policy rate twice during the quarter. At the end of the quarter, the range for the Fed's target rate was 4.25 to 4.50 percent. The decline in inflation was positive for equity markets, and the MSCI Developed Markets World IMI returned 9.9 percent for the quarter. Emerging markets also performed well, with the MSCI Emerging Markets IMI up 9.5 percent. This helped ease some of the declines experienced in the equity markets throughout the calendar year 2022. In the fixed income markets, longer-maturity interest rates remained unchanged during the quarter despite the Fed's moves. Credit spreads narrowed in line with the positive equity market performance, and, combined with a lack of significant movements in long-term interest rates, fixed income indices enjoyed positive returns during the quarter. The Bloomberg U.S. Universal Index gained 2.2 percent for the quarter to close out a rough calendar year for fixed income investors.

THIRD QUARTER OF FISCAL YEAR 2023 (JANUARY 1, 2023 TO MARCH 31, 2023)

The third quarter of Fiscal Year 2023 began with a sense of optimism as many investors believed global central banks would halt interest rate hikes as inflation continued to retreat. This sentiment soon faded as February brought concerns that the global economy was overheating, which might necessitate keeping interest rates higher for longer. In March, fears of another global financial crisis took hold following the collapse of Silicon Valley Bank, the second-largest banking failure in U.S. history. This led to a major sell-off in the U.S. and European financial sectors. Overall, lower energy and oil prices, coupled with optimism about the reopening of China following three years of Covid-19 lockdowns, improved business sentiment during the quarter, as illustrated by a rebound in the S&P Global U.S. and European Composite PMIs. The U.S. labor market remained resilient as March non-farm payrolls showed continued job growth. Average hourly earnings rose by just 0.3 percent month over month, reflecting gradually decelerating wage pressures. The March CPI report showed headline inflation falling to 5.0 percent year-over-year, far from the peak of 9.1 percent in June 2022. Slowing growth rates in wages and housing costs signaled a continued downward trend in inflation. The Fed raised interest rates twice more during the quarter, bringing the target range to 4.75 to 5.0 percent, with Fed Chair Jay Powell warning that additional increases were still on the table. Developed equity markets enjoyed a positive quarter as the MSCI Developed Markets World IMI returned 7.3 percent. Emerging markets trailed well behind, with a return of 3.9 percent for the MSCI Emerging Markets IMI. Despite the robust equity markets and interest rate hikes, the U.S. 10-year Treasury yield declined by 0.4 percent to end the quarter at 3.5 percent. The Bloomberg U.S. Universal gained 2.9 percent for the quarter as a result of the falling yields.

FOURTH QUARTER OF FISCAL YEAR 2023 (APRIL 1, 2023 TO JUNE 30, 2023)

In the last quarter of Fiscal Year 2023, concerns about the U.S. “debt ceiling” took center stage. In January, the U.S. officially reached its statutory debt limit, commonly known as the “debt ceiling”. The U.S. Treasury was able to extend the limit temporarily but warned it would exhaust its options by June 5th. Investors remained on edge as congressional negotiations dragged on. In late May, congressional members reached a compromise on legislation to suspend the debt ceiling, which was swiftly approved by Congress and signed into law by President Biden. The deal included concessions on spending, which were not expected to slow economic growth.

Meanwhile, there were signs that U.S. inflation might return to acceptable levels and the Fed might stop hiking rates. By June, headline inflation fell to 3.0 percent year-over-year amid a continued decline in energy costs. The U.S. unemployment rate increased in May from 3.4 to 3.7 percent, a larger-than-expected move, but the labor market remained historically tight. After increasing its target rate range to 5.0 to 5.25 percent in May, the Fed held off on further rate increases in June.

The quarter ended with strong equity markets as global investors reacted positively to slowing inflation and optimism that an end to the Fed’s interest rate hikes was on the horizon. Enthusiasm about the latest breakthroughs in generative artificial intelligence also boosted tech stocks. The MSCI Developed Markets World IMI returned 6.4 percent for the quarter and 17.9 percent for the fiscal year that ended June 30, 2023. Emerging markets continued to trail developed markets, with the MSCI Emerging Markets IMI returning 1.6 percent for the quarter and 3.2 percent year-over-year.

Despite the Fed’s decision to pause interest rate increases, the U.S. 10-year Treasury yield rose to end the quarter and fiscal year at 3.8 percent, an increase of 0.8 percentage points from the previous fiscal year. In fixed income markets, both investment grade and high yield spreads narrowed further, with year-over-year declines of 32 and 179 basis points, respectively. The Bloomberg U.S. Universal ended the quarter down 0.6 percent to close out Fiscal Year 2023 at a slight loss.

ANALYSIS OF CHANGES TO FIDUCIARY NET INVESTMENT POSITION

As shown in the following table, the fiduciary net investment position of the GET Fund increased by $93.2 million during the fiscal year ended June 30, 2023. Net realized and unrealized gains increased fiduciary net investment position by $103.1 million in the current fiscal year. Net withdrawals by the GET Fund participants during the year decreased fiduciary net investment position by $24.0 million. Other investment income net of expenses increased fiduciary net investment position by $14.0 million and was reinvested within the various asset classes.

Net investment income increased by 160.4 percent from the previous fiscal year, mainly from increases in realized and unrealized gains in the debt and equity markets. These market related gains increased by 149.6 percent from the previous year as the result of significant increases in overall returns year-over-year as discussed previously in the General Market Commentary. The current fiscal year return for the GET Fund was 7.8 percent, compared to the prior fiscal year return of (11.5) percent.

Net withdrawals increased by $29.8 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.

Investment related receivables and payables are reflected in each asset class's fiduciary net investment position in the following table. Open foreign exchange contracts and unsettled investment trades pending over year end comprise most of these balances. The balances in open foreign exchange contracts fluctuate based on the trading needs of investment managers. Unsettled investment trades pending over year end vary based on the timing of additional cash flows, market fluctuations, and rebalancing to strategic investment targets. Accordingly, there is minimal correlation between open foreign exchange contracts or pending trades to invested balances, which can vary substantially from year to year.

	Summarized Change in Fiduciary Net Investment Position and Returns by Asset Class									
	Fiscal Year End June 30, 2023				Fiscal Year End June 30, 2022				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 (**)	$ 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%
Investment Income:										
Interest, Dividends, and Other Investment Income	237,396	-	14,714,532	14,951,928	63,059	-	14,339,332	14,402,391	549,537	3.8%
Realized and Unrealized Gains (Losses)	-	19,770,988	83,307,223	103,078,211	-	(84,781,837)	(122,855,951)	(207,637,788)	310,715,999	149.6%
Less: Investment Expenses	(287,682)	(2,900)	(612,501)	(903,083)	(273,459)	(3,804)	(292,131)	(569,394)	333,689	58.6%
Net Investment Income (Loss)	(50,286)	19,768,088	97,409,254	117,127,056	(210,400)	(84,785,641)	(108,808,750)	(193,804,791)	310,931,847	160.4%
Net Amount Contributed (Withdrawn)	(23,966,599)	-	-	(23,966,599)	5,814,115	-	-	5,814,115	(29,780,714)	-512.2%
Transfers Between Asset Classes	9,781,295	(5,997,100)	(3,784,195)	-	(2,260,020)	51,303,804	(49,043,784)	-	-	N/A
Ending Fiduciary Net Investment Position (**)	**$ 17,103,148**	**$ 925,567,554**	**$ 671,903,854**	**$ 1,614,574,556**	**$ 31,338,738**	**$ 911,796,566**	**$ 578,278,795**	**$ 1,521,414,099**	**$ 93,160,457**	**6.1%**
Increase (Decrease) in Fiduciary Net Investment Position	**$ (14,235,590)**	**$ 13,770,988**	**$ 93,625,059**	**$ 93,160,457**						
Percent Change in Fiduciary Net Investment Position	**-45.4%**	**1.5%**	**16.2%**	**6.1%**						
One Year Time Weighted Return - June 30, 2023	**3.6%**	**2.2%**	**16.7%**	**7.8%**						
One Year Time Weighted Return - June 30, 2022	**0.2%**	**-8.6%**	**-15.9%**	**-11.5%**						

(*) 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 decreased by $14.2 million, primarily from withdrawals made by the WSAC, which were partially funded by the reinvestment of proceeds from the sale of debt and equity securities. 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, 2023, increased significantly over the prior fiscal year to 3.6 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 350 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.

Debt securities fiduciary net investment position increased by $13.8 million over the prior fiscal year, mainly from realized and unrealized gains earned during the current fiscal year of $19.8 million, the result of positive returns in the debt portfolio. This increase was partially offset as debt securities were sold, and the resulting proceeds of $6.0 million were reinvested in cash to meet the withdrawal needs of WSAC. 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.

Performance of the Bond Fund for the fiscal year ended June 30, 2023, was 2.2 percent, which outperformed its benchmark, the Bloomberg U.S. Intermediate Credit Index, which returned 1.6 percent. The fund maintained an overweight to emerging market credit where spreads narrowed more than the investment grade credit spreads in the benchmark, contributing to the outperformance. In addition, the portfolio benefited from holding higher-yielding securities than the benchmark throughout the fiscal year. Narrowing credit spreads in a raising rate environment contributed to positive bond market returns and drove returns significantly higher than the previous year.

See the Daily Valued Funds audited financial statements for additional information on this investment vehicle and the General Market Commentary for additional economic and market information.

- ***Equity securities*** fiduciary net investment position increased by $93.6 million, mainly from net realized and unrealized gains during the current fiscal year. These market related gains in the current fiscal year increased equity balances by $83.3 million, the result of positive returns in the equity markets. This increase was partially offset as equity securities were sold and the proceeds of $3.8 million were reinvested in cash to meet the withdrawal needs of WSAC. The overall investment return for equity securities in the current fiscal year of 16.7 percent was a significant increase from the prior fiscal year return of (15.9) percent. The GET Fund's global equity portfolio is passively managed to closely track the performance of its global benchmark, the MSCI All Country World Investable Market Index (MSCI ACWI IMI), which returned 16.5 percent in the current fiscal year. The slight outperformance of the equity portfolio compared to its global equity benchmark was from security and country weights that were modestly different from the benchmark.

  See General Market Commentary for additional economic and market information.

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.

As shown in the following table, securities on loan increased by $11.2 million, and collateral held under securities lending agreements increased accordingly. The fiscal year faced extreme volatility across all public markets, as discussed previously in the General Market Commentary. The major driver of the increase in securities on loan was borrower demand and their willingness to pay premiums for “meme stocks” and companies in the electric vehicle space.

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

	June 30, 2023	June 30, 2022	Increase	Percent Change
Securities on Loan Fiscal Year End	$ 23,101,532	$ 11,935,926	$ 11,165,606	93.5%
Cash Collateral Held Under Securities Lending Agreements	$ 17,450,586	$ 9,142,704	$ 8,307,882	
Non-Cash Collateral Held Under Securities Lending Agreements	$ 6,505,917	$ 3,416,176	$ 3,089,741	
Total Collateral Held	**$ 23,956,503**	**$ 12,558,880**	**$ 11,397,623**	**90.8%**

GET FUND STATEMENT OF FIDUCIARY NET INVESTMENT POSITION
JUNE 30, 2023

SEE NOTES TO FINANCIAL STATEMENTS

			Percent of Total
ASSETS			
Investments			
CASH AND CASH EQUIVALENTS	$	23,036,848	1.4%
DEBT SECURITIES			
Commingled Intermediate Credit		925,567,552	
Total Debt Securities		925,567,552	57.4%
EQUITY SECURITIES			
Common and Preferred Stock		646,381,473	
Real Estate Investment Trusts		15,115,629	
Depository Receipts and Other		2,674,786	
Total Equity Securities		664,171,888	41.2%
Total Investments		1,612,776,288	100.0%
Collateral Held Under Securities Lending Agreements		17,450,586	
Pending Trades and Other Investment Receivables		1,907,855	
Total Assets		1,632,134,729	
LIABILITIES			
Obligations Under Securities Lending Agreements		17,450,586	
Pending Trades and Other Investment Payables		109,587	
Total Liabilities		17,560,173	
FIDUCIARY NET INVESTMENT POSITION	$	1,614,574,556	

GET FUND STATEMENT OF CHANGES IN FIDUCIARY NET INVESTMENT POSITION
YEAR ENDED JUNE 30, 2023

SEE NOTES TO FINANCIAL STATEMENTS

Net Investment Income		
Investment Income		
Interest, Dividends and Other Investment Income	$	14,439,493
Securities Lending Income		512,435
Net Realized Capital Gains (Losses)		4,823,019
Unrealized Gains (Losses)		98,255,192
Less:		
Securities Lending Rebates and Fees		(376,321)
Investment Expenses		(253,715)
WSIB Operating Expenses		(273,047)
Net Investment Income (Loss)		117,127,056
Net Contribution (Withdrawal)		(23,966,599)
Increase (Decrease) in Fiduciary Net Investment Position		93,160,457
Fiduciary Net Investment Position - June 30, 2022		1,521,414,099
Fiduciary Net Investment Position - June 30, 2023	$	1,614,574,556

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 or 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 2023 was $0.5 million. Securities lending expenses during the fiscal year totaled $0.4 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 fair 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, 2023, 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, 2023. 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, 2023, 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, 2023.

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 WSIB manages 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 portfolio'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 (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.

The fair value of the securities on loan at June 30, 2023, was approximately $23.1 million. The securities on loan remain in the Statement of Fiduciary Net Investment Position in their respective categories. At June 30, 2023, cash collateral received totaling $17.5 million is reported as a securities lending obligation, and the fair value of the reinvested cash collateral totaling $17.5 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, 2023, was $24.0 million.

Debt and equity securities were loaned and collateralized by the GET Fund's agent, with cash and U.S. Government or U.S. Agency Securities, including U.S. Agency Mortgage-Backed Securities (exclusive of letters of credit). When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest of the loaned securities. The following table summarizes the securities held from reinvestment of cash collateral and securities received as collateral at June 30, 2023.

	Summarized Change in Securities on Loan and Collateral ($ Millions)		
	Cash Collateral	Non-Cash Collateral	Total
Repurchase Agreements	$ 3.4	$ -	$ 3.4
Yankee Certificate of Deposit	4.3	-	4.3
Commercial Paper	5.1	-	5.1
U.S. Treasuries	1.3	6.5	7.8
Cash Equivalents and Other	3.4	-	3.4
Total Collateral Held	**$ 17.5**	**$ 6.5**	**$ 24.0**

During Fiscal Year 2023, securities lending transactions could be terminated on demand by either the GET Fund or the borrower. As of June 30, 2023, the cash collateral held had an average duration of 12.84 days and an average weighted final maturity of 99.61 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. SSC 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 SSC'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 2023, 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 2023, 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, 2023, the derivative instruments held by the GET Fund are considered investment derivative instruments and not hedging derivative instruments for accounting purposes.

Derivative instruments are generally used to achieve the desired market exposure of a security, index, or currency. Derivative instrument contracts are instruments that derive their value from underlying assets, indices, reference interest rates, or a combination of these factors. A derivative instrument could be a 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, 2023, 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, 2023, the GET Fund had no open OTC derivative instruments and, accordingly, no counterparty credit risk. Derivative instruments which are exchange traded are not subject to counterparty credit risk.

		Changes in Fair Value - Included in Investment Income	Fair Value at June 30, 2023 - Investment Derivative Instrument	
	Classification	Amount	Amount	Notional
FUTURES CONTRACTS:				
Equity Index Futures	Investment	$ 559,528	$ 118,538	3,000

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 method used is to 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 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 GET Funds receive fair value prices for publicly traded securities directly from the 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.

The following table presents fair value measurements as of June 30, 2023:

		Fair Value Measurements Using:		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
INVESTMENTS				
EQUITY SECURITIES	$ 664,171,888	$ 663,023,736	$ 915,612	$ 232,540
Total Investments By Fair Value Level	664,171,888	663,023,736	915,612	232,540
INVESTMENTS MEASURED AT NET ASSET VALUE				
Commingled Intermediate Credit	925,567,552			
Total Investments Measured at Fair Value	$ 1,589,739,440			
OTHER ASSETS (LIABILITIES) AT FAIR VALUE				
Collateral Held Under Securities Lending Agreements	$ 17,450,586	$ -	$ 17,450,586	$ -
Margin Variation Receivable - Futures Contracts	118,538	118,538	-	-
Obligations Under Securities Lending Agreements	(17,450,586)	-	(17,450,586)	-
Total Other Assets (Liabilities) Measured at Fair Value	$ 118,538	$ 118,538	$ -	$ -

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 fair 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.

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 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
- 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 fair 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%	± 5%
Fixed Income	60%	± 5%
Cash	0%	+ 5%

SCHEDULE 1

SCHEDULE OF MATURITIES AND CREDIT RATINGS

		Maturity					
Investment Type	Total Fair Value	Less than 1 year	1-5 years	6-10 years	More than 10 years	Effective Duration*	Credit Rating
Commingled Intermediate Credit	$ 925,567,552	$ 50,893,625	$ 504,111,546	$ 351,098,025	$ 19,464,356	4.1	Schedule 2
Investments Not Required to be Categorized							
Equity Securities	664,171,888						
Cash and Cash Equivalents	23,036,848						
Total Investments Not Categorized	687,208,736						
Total Investments	$ 1,612,776,288						

* Duration excludes cash and cash equivalents

SCHEDULE 2

ADDITIONAL CREDIT RATING DISCLOSURES

	Commingled Intermediate Credit
Moody's Equivalent Credit Rating	**Total Fair Value**
Aaa	$ 17,978,949
Aa1	30,613,983
Aa2	17,393,171
Aa3	40,708,310
A1	103,427,526
A2	124,234,400
A3	170,371,604
Baa1	135,730,270
Baa2	168,372,790
Baa3	104,816,751
Ba1 or Lower	11,919,798
Total	$ 925,567,552

SCHEDULE 3

FOREIGN CURRENCY EXPOSURE BY CURRENCY

	Investment Type In U.S. Dollar Equivalent			
Foreign Currency Denomination	Cash and Cash Equivalents	Equity Securities	Total	Percent of Total GET Funds Investments
AUSTRALIAN DOLLAR	$ 150,473	$ 12,920,820	$ 13,071,293	0.8%
BRAZILIAN REAL	105,240	4,025,958	4,131,198	0.3%
CANADIAN DOLLAR	71,498	19,355,618	19,427,116	1.2%
SWISS FRANC	115,681	15,700,043	15,815,724	1.0%
DANISH KRONE	89,203	5,084,086	5,173,289	0.3%
EURO CURRENCY	540,214	55,078,260	55,618,474	3.4%
POUND STERLING	150,855	25,345,246	25,496,101	1.6%
HONG KONG DOLLAR	161,690	19,469,924	19,631,614	1.2%
INDIAN RUPEE	281,813	11,200,080	11,481,893	0.7%
JAPANESE YEN	492,413	39,777,353	40,269,766	2.5%
SOUTH KOREAN WON	37,351	9,008,293	9,045,644	0.6%
SWEDISH KRONA	147,577	5,986,058	6,133,635	0.4%
NEW TAIWAN DOLLAR	622,698	11,856,035	12,478,733	0.8%
OTHER - MISCELLANEOUS	1,405,748	21,809,572	23,215,320	1.4%
Total Foreign Currency Exposure	$ 4,372,454	$ 256,617,346	$ 260,989,800	16.2%

EideBailly
CPAs & BUSINESS ADVISORS

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

TO THE MEMBERS OF THE WASHINGTON STATE INVESTMENT BOARD

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Guaranteed Education Tuition Fund as of and for the year ended June 30, 2023, 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 22, 2023.

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.

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.

Boise, Idaho
September 22, 2023

DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST FUND

EideBailly
CPAs & BUSINESS ADVISORS

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, 2023, 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, 2023, and the changes in fiduciary net investment position for the year then ended in accordance 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* issued by the Comptroller General of the United States (*Government Auditing Standards*). 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.

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 GAAS, 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 22, 2023 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.

Eide Bailly LLP

Boise, Idaho
September 22, 2023

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, 2023. 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, 2023. The summarized change in fiduciary net investment position table compares the fiduciary net investment position of each major investment classification at June 30, 2023, with those at June 30, 2022. 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

MARKET ENVIRONMENT – BEGINNING OF FISCAL YEAR 2023

Fiscal Year 2023 came on the heels of one of the worst quarters for equity and bond markets in recent history. During the second half of Fiscal Year 2022, a confluence of factors, including the ongoing conflict in Ukraine and its impact on commodity prices, COVID-related supply chain disruptions, labor shortages, and geopolitical tensions, led to historically high inflation figures in many countries. The United States (U.S.) Consumer Price Index (CPI), which captures the cost of a sample of goods and services representative of a typical consumer's spending, rose 9.1 percent from a year earlier ("year-over-year"), a level of inflation not seen in the U.S. since the early 1980s. This "headline" inflation led central banks, such as the U.S. Federal Reserve (Fed), the European Central Bank, and the Bank of England, to raise interest rates in response.

FIRST QUARTER OF FISCAL YEAR 2023 (JULY 1, 2022 TO SEPTEMBER 30, 2022)

In the first quarter of Fiscal Year 2023, the U.S. received some relief from high energy prices and headline inflation figures eased. However, "core" CPI, which excludes the more volatile food and energy costs, continued to rise. Inflation in the U.S. remained elevated as a strong labor market pushed wages up, buoying consumers' ability to maintain healthy spending levels in the face of rising prices. Shelter and medical care costs also remained high, contributing to a persistently high core inflation rate. In response, the Fed raised interest rates twice during the quarter, bringing the federal fund's target rate range to 3.00 to 3.25 percent.

During this quarter, investors also noted signs of slowing global growth. The purchasing managers indices (PMIs), which are a gauge of economic conditions based on purchasing managers sentiment, warned of declining new orders, slower export business, and rising levels of unsold inventory. In particular, the J.P. Morgan Global Composite PMI for August signaled a slowdown in global economic activity for the first time since June 2020. Estimates of the U.S. gross domestic

product (GDP), a measure of economic output, indicated that the U.S. economy had contracted in the first two calendar quarters of 2022, a so-called “technical recession”. Persistently high core inflation and a negative economic outlook weighed on equity markets, and the MSCI Developed Markets World Investable Market Index (IMI), a broad measure of developed equity market returns, declined 6.1 percent for the quarter, further compounding a dismal 2022 for equity investors. Countries in emerging markets underperformed those in developed markets during the quarter, with the MSCI Emerging Markets IMI losing 10.8 percent. U.S. interest rates, as measured by the U.S. 10-year Treasury rate, were higher as well. They closed out the quarter at 3.8 percent, up 0.8 percent from the previous quarter. These higher interest rates negatively impacted the returns in the fixed income markets, and the Bloomberg U.S. Universal Index, a measure of the total U.S. dollar-denominated, fixed-rate, taxable bond market, lost 4.5 percent for the quarter.

SECOND QUARTER OF FISCAL YEAR 2023 (OCTOBER 1, 2022 TO DECEMBER 31, 2022)

The second quarter of Fiscal Year 2023 brought more signs of an impending slowdown in global manufacturing as respondents to PMI surveys noted a slump in new orders and rising inventory levels. On a positive note, GDP data from the Commerce Department indicated the U.S. economy had grown by 3.2 percent (annualized) in the third calendar quarter of 2022, as consumer spending helped the economy rebound from two prior quarters of contraction. Headline inflation remained high during the quarter but continued to trend downward, and core inflation finally began to subside as supply chain pressures eased. Inflation figures remained well outside of the Fed’s desired range, and the labor market remained tight amid strong demand for workers. The Fed responded by raising its policy rate twice during the quarter. At the end of the quarter, the range for the Fed’s target rate was 4.25 to 4.50 percent. The decline in inflation was positive for equity markets, and the MSCI Developed Markets World IMI returned 9.9 percent for the quarter. Emerging markets also performed well, with the MSCI Emerging Markets IMI up 9.5 percent. This helped ease some of the declines experienced in the equity markets throughout the calendar year 2022. In the fixed income markets, longer-maturity interest rates remained unchanged during the quarter despite the Fed’s moves. Credit spreads narrowed in line with the positive equity market performance, and, combined with a lack of significant movements in long-term interest rates, fixed income indices enjoyed positive returns during the quarter. The Bloomberg U.S. Universal Index gained 2.2 percent for the quarter to close out a rough calendar year for fixed income investors.

THIRD QUARTER OF FISCAL YEAR 2023 (JANUARY 1, 2023 TO MARCH 31, 2023)

The third quarter of Fiscal Year 2023 began with a sense of optimism as many investors believed global central banks would halt interest rate hikes as inflation continued to retreat. This sentiment soon faded as February brought concerns that the global economy was overheating, which might necessitate keeping interest rates higher for longer. In March, fears of another global financial crisis took hold following the collapse of Silicon Valley Bank, the second-largest banking failure in U.S. history. This led to a major sell-off in the U.S. and European financial sectors. Overall, lower energy and oil prices, coupled with optimism about the reopening of China following three years of Covid-19 lockdowns, improved business sentiment during the quarter, as illustrated by a rebound in the S&P Global U.S. and European Composite PMIs. The U.S. labor market remained resilient as March non-farm payrolls showed continued job growth. Average hourly earnings rose by just 0.3 percent month over month, reflecting gradually decelerating wage pressures. The March CPI report showed headline inflation falling to 5.0 percent year-over-year, far from the peak of 9.1 percent in June 2022. Slowing growth rates in wages and housing costs signaled a continued downward trend in inflation. The Fed raised interest rates twice more during the quarter, bringing the target range to 4.75 to 5.0 percent, with Fed Chair Jay Powell warning that additional increases were still on the table. Developed equity markets enjoyed a positive quarter as the MSCI Developed Markets World IMI returned 7.3 percent. Emerging markets trailed well behind, with a return of 3.9 percent for the MSCI Emerging Markets IMI. Despite the robust equity markets and interest rate hikes, the U.S. 10-year Treasury yield declined by 0.4 percent to end the quarter at 3.5 percent. The Bloomberg U.S. Universal gained 2.9 percent for the quarter as a result of the falling yields.

FOURTH QUARTER OF FISCAL YEAR 2023 (APRIL 1, 2023 TO JUNE 30, 2023)

In the last quarter of Fiscal Year 2023, concerns about the U.S. “debt ceiling” took center stage. In January, the U.S. officially reached its statutory debt limit, commonly known as the “debt ceiling”. The U.S. Treasury was able to extend the limit temporarily but warned it would exhaust its options by June 5th. Investors remained on edge as congressional negotiations dragged on. In late May, congressional members reached a compromise on legislation to suspend the debt ceiling, which was swiftly approved by Congress and signed into law by President Biden. The deal included concessions on spending, which were not expected to slow economic growth.

Meanwhile, there were signs that U.S. inflation might return to acceptable levels and the Fed might stop hiking rates. By June, headline inflation fell to 3.0 percent year-over-year amid a continued decline in energy costs. The U.S. unemployment rate increased in May from 3.4 to 3.7 percent, a larger-than-expected move, but the labor market remained historically tight. After increasing its target rate range to 5.0 to 5.25 percent in May, the Fed held off on further rate increases in June.

The quarter ended with strong equity markets as global investors reacted positively to slowing inflation and optimism that an end to the Fed’s interest rate hikes was on the horizon. Enthusiasm about the latest breakthroughs in generative artificial intelligence also boosted tech stocks. The MSCI Developed Markets World IMI returned 6.4 percent for the quarter and 17.9 percent for the fiscal year that ended June 30, 2023. Emerging markets continued to trail developed markets, with the MSCI Emerging Markets IMI returning 1.6 percent for the quarter and 3.2 percent year-over-year.

Despite the Fed’s decision to pause interest rate increases, the U.S. 10-year Treasury yield rose to end the quarter and fiscal year at 3.8 percent, an increase of 0.8 percentage points from the previous fiscal year. In fixed income markets, both investment grade and high yield spreads narrowed further, with year-over-year declines of 32 and 179 basis points, respectively. The Bloomberg U.S. Universal ended the quarter down 0.6 percent to close out Fiscal Year 2023 at a slight loss.

ANALYSIS OF CHANGES TO FIDUCIARY NET INVESTMENT POSITION

As shown in the following table, the fiduciary net investment position of the DDEF increased by $9.8 million during the fiscal year ended June 30, 2023. Net realized and unrealized gains increased the fiduciary net investment position by $7.3 million. The remaining year-over-year increase to fiduciary net investment position was mainly attributable to other investment income net of expenses reinvested within the various asset classes.

Net investment income increased by 173.2 percent from the previous fiscal year, mainly from increases in realized and unrealized gains within the Balanced Funds portfolio. Overall market-related gains increased by 144.5 percent from the previous year as the result of significant increases in returns year-over-year, as discussed previously in the General Market Commentary. The current fiscal year return for the DDEF was 10.3 percent, compared to the prior year's return of (12.3) percent.

Contributions decreased by $5.2 million during the current fiscal year compared to the previous fiscal year. Contributions and withdrawals from the funds are made by the Washington State Department of Commerce (Commerce) based on individual participant contribution and withdrawal requests. These requests can vary substantially from year to year based on participant needs.

	Summarized Change in Fiduciary Net Investment Position and Returns by Asset Class											
	Fiscal Year End June 30, 2023					Fiscal Year End June 30, 2022					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	$ 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%
Investment Income:												
Interest, Dividends, and Other Investment Income	455	-	33,986	2,380,865	2,415,306	335	-	1,744	3,181,114	3,183,193	(767,887)	-24.1%
Realized and Unrealized Gains (Losses)	-	178,900	711,199	6,412,959	7,303,058	-	(736,726)	(734,960)	(14,936,950)	(16,408,636)	23,711,694	144.5%
Less: Investment Expenses	(28)	(1,488)	(2,350)	(17,860)	(21,726)	(107)	(1,353)	(2,299)	(16,665)	(20,424)	1,302	6.4%
Net Investment Income (Loss)	427	177,412	742,835	8,775,964	9,696,638	228	(738,079)	(735,515)	(11,772,501)	(13,245,867)	22,942,505	173.2%
Net Amount Contributed (Withdrawn)	137,393	-	-	-	137,393	5,337,150	-	-	-	5,337,150	(5,199,757)	-97.4%
Transfers to Other Asset Classes	(140,315)	301,488	(297,694)	136,521	-	(5,351,061)	389,148	200,338	4,761,575	-	N/A	N/A
Ending Fiduciary Net Investment Position	**$ 10,134**	**$ 8,615,083**	**$ 4,855,774**	**$ 91,041,802**	**$ 104,522,793**	**$ 12,629**	**$ 8,136,183**	**$ 4,410,633**	**$ 82,129,317**	**$ 94,688,762**	**$ 9,834,031**	**10.4%**
Increase (Decrease) in Fiduciary Net Investment Position	**$ (2,495)**	**$ 478,900**	**$ 445,141**	**$ 8,912,485**	**$ 9,834,031**							
Percent Change in Fiduciary Net Investment Position	**-19.8%**	**5.9%**	**10.1%**	**10.9%**	**10.4%**							
One Year Time Weighted Return - June 30, 2023	**3.6%**	**2.2%**	**17.2%**	**10.7%**	**10.3%**							
One Year Time Weighted Return - June 30, 2022	**0.9%**	**-8.6%**	**-16.3%**	**-12.5%**	**-12.3%**							

(*) 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 to maintain strategic asset allocation targets. 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, 2023, increased significantly over the prior fiscal year to 3.6 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 350 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.

- ***Debt securities*** fiduciary net investment position increased by $0.5 million, in part due to realized and unrealized gains earned during the current fiscal year of $0.2 million, the result of positive returns in the debt portfolio. Strong equity performance required the DDEF Funds to rebalance to strategic asset allocation targets, and $0.3 million of equities were sold and the proceeds reinvested in debt securities in the current fiscal year. 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.

Performance of the Bond Fund for the fiscal year ended June 30, 2023, was 2.2 percent, which outperformed its benchmark, the Bloomberg U.S. Intermediate Credit Index, which returned 1.6 percent. The fund maintained an overweight to emerging market credit where spreads narrowed more than the investment grade credit spreads in the benchmark, contributing to the outperformance. In addition, the portfolio benefited from holding higher-yielding securities than the benchmark throughout the fiscal year. Narrowing credit spreads in a raising rate environment contributed to positive bond market returns and drove returns significantly higher than the previous year.

See the Daily Valued Funds audited financial statements for additional information on this investment vehicle and the General Market Commentary for additional economic and market information.

- ***Equity securities*** fiduciary net investment position increased by $0.4 million, mainly from realized and unrealized gains earned during the current fiscal year of $0.7 million, the result of positive returns in the equity markets. Strong equity performance required the DDEF Funds to rebalance to strategic asset allocation targets, and $0.3 million of equities were sold, and the proceeds reinvested in debt securities in the current fiscal year. The overall investment return for equity securities in the current fiscal year was 17.2 percent, a significant increase from the prior fiscal year return of (16.3) percent. The DDEF global equity portfolio is passively managed to closely track the performance of its benchmark, the MSCI All Country World Investable Market Index (MSCI ACWI IMI) with USA Gross Index, which returned 16.5 percent. The outperformance of the equity portfolio compared to its global equity benchmark was from security and country weights favorable to the DDEF equity returns.

  See General Market Commentary for additional economic and market information.

- ***Balanced Funds*** fiduciary net investment position increased by $8.9 million. Realized and unrealized gains increased the portfolio by $6.4 million, the result of positive investment returns for the current fiscal year. New Private Trust Fund participant contributions received from Commerce of $0.1 million increased the invested balances. 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 10.7 percent, which was a significant increase from the prior fiscal year return of (12.5) percent. As a Balanced Fund, positive returns in both equity and fixed income markets drove the significant increase in the fund’s total return year-over-year. The fund slightly underperformed its benchmark, which is a blend of 60 percent Center for Research in Security Prices (CRSP) U.S. Total Market Index and 40 percent Bloomberg U.S. Aggregate Float Adjusted Total Return Index, which returned 11.1 percent for the fiscal year.

  See General Market Commentary for additional economic and market information.

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 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.

DDEF STATEMENT OF FIDUCIARY NET INVESTMENT POSITION
JUNE 30, 2023

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	$ 2,495	$ 7,597	$ 10,092	0.0%
DEBT SECURITIES				
Commingled Intermediate Credit	8,615,085	-	8,615,085	8.2%
EQUITY SECURITIES				
Collective Equity Index Funds	4,856,132	-	4,856,132	4.6%
BALANCED FUNDS				
Commingled Balanced Trust	-	91,041,802	91,041,802	87.2%
Total Investments	13,473,712	91,049,399	104,523,111	100.0%
Investment Earning Receivable	11	33	44	
Total Assets	13,473,723	91,049,432	104,523,155	
LIABILITIES				
Accrued Expenses Payable	361	1	362	
FIDUCIARY NET INVESTMENT POSITION	**$ 13,473,362**	**$ 91,049,431**	**$ 104,522,793**	

DDEF STATEMENT OF CHANGES IN FIDUCIARY NET INVESTMENT POSITION
YEAR ENDED JUNE 30, 2023

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	$ 34,106	$ 2,381,200	$ 2,415,306
Net Realized Capital Gains (Losses)	107,896	-	107,896
Unrealized Gains (Losses)	782,203	6,412,959	7,195,162
Less:			
Investment Expenses	(1,574)	(2,759)	(4,333)
WSIB Operating Expenses	(17,393)	-	(17,393)
Net Investment Income (Loss)	905,238	8,791,400	9,696,638
Net Amount Contributed (Withdrawn)	17,393	120,000	137,393
Increase (Decrease) in Fiduciary Net Investment Position	922,631	8,911,400	9,834,031
FIDUCIARY NET INVESTMENT POSITION, JUNE 30, 2022	12,550,731	82,138,031	94,688,762
FIDUCIARY NET INVESTMENT POSITION, JUNE 30, 2023	$ 13,473,362	$ 91,049,431	$ 104,522,793

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.

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 fair 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, 2023, 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, 2023. 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, 2023, 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, 2023.

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, 2023, consists of $1.9 million (excludes U.S. dollar denominated securities), less that 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 method used is to 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, and any third-party valuations are reviewed for reasonableness and compliance with relevant accounting standards.

The following table presents fair value measurements as of June 30, 2023:

		Fair Value Measurements Using:		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
INVESTMENTS				
BALANCED FUNDS				
Balanced Mutual Funds	$ 91,041,802	$ 91,041,802	$ -	$ -
Total Investments By Fair Value Level	$ 91,041,802	$ 91,041,802	$ -	$ -
INVESTMENTS MEASURED AT NET ASSET VALUE				
Collective Equity Index Funds	4,856,132			
Commingled Intermediate Credit	8,615,085			
Total Investments at Net Asset Value	13,471,217			
Total Investments Measured at Fair Value	$ 104,513,019			

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, 2023, was $43.20 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 Funds 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.

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 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 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 Endowment Governing Board and the participants. Based on this requirement, the order of the strategic investment 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."
- In accordance with RCW 43.33A.140, no corporate fixed income issues or common stock holding's cost shall 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 (RCW 43.33A.140).
- Assets shall be diversified at a prudent level to moderate fluctuations in the fair value of the fund.

PERMISSIBLE INVESTMENTS

Fixed Income: The fixed income portion of the state fund is invested in the WSIB Bond Market Fund. The benchmark for the Bond Market Fund is the Bloomberg U.S. Intermediate Credit Index.
Public Equity: The public equity component of the state fund is invested passively to track the return of a broad global equity benchmark. The benchmark for the public equity component is the MSCI All Country World Investable Market Index (MSCI ACWI IMI) with U.S. Gross.
Balanced Mutual Funds: The private fund is invested in the Vanguard Balanced Index Fund Institutional Shares.
Cash: The cash component of the state fund is invested in a portfolio of short-term securities issued or guaranteed by the U.S. government. The benchmark for the cash component is the 90-day Treasury bill return.

ASSET ALLOCATION

The asset allocation policy has been developed with the following investment performance objectives:

State Fund:

- 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.

Private Fund:

- Generate a return that generally tracks the benchmark for the selected investment vehicle.

Assets are rebalanced across asset classes when fair values fall outside respective policy targets or ranges as follows:

State Funds	Target	Range
Cash	0%	+ 5%
Fixed Income	65%	± 3%
Public Equity	35%	± 3%

Private Funds	Target
Fixed Income	40%
Public Equity	60%

SCHEDULE 1

SCHEDULE OF MATURITIES AND CREDIT RATINGS

		Maturity					
Investment Type	Total Fair Value	Less than 1 year	1-5 years	6-10 years	More than 10 years	Effective Duration*	Credit Rating
Commingled Intermediate Credit	$ 8,615,085	$ 473,712	$ 4,692,218	$ 3,267,983	$ 181,172	4.1	Schedule 2
Investments Not Required to be Categorized							
Collective Equity Index Funds	4,856,132						
Balanced Mutual Funds	91,041,802						
Money Market Funds	10,092						
Total Investments Not Categorized	95,908,026						
Total Investments	$ 104,523,111						

* Duration excludes cash and cash equivalents

SCHEDULE 2

ADDITIONAL CREDIT RATING DISCLOSURES

	Commingled Intermediate Credit
Moody's Equivalent Credit Rating	**Fair Value**
Aaa	$ 167,346
Aa1	284,952
Aa2	161,894
Aa3	378,909
A1	962,692
A2	1,156,361
A3	1,585,801
Baa1	1,263,363
Baa2	1,567,196
Baa3	975,623
Ba1 or Lower	110,948
Total	$ 8,615,085

EideBailly
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, 2023, 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 22, 2023.

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, 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.

Eide Bailly LLP

Boise, Idaho
September 22, 2023

WASHINGTON STATE OPPORTUNITY SCHOLARSHIP FUND

EideBailly
CPAs & BUSINESS ADVISORS

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, 2023, 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, 2023, and the changes in fiduciary net investment position for the year then ended in accordance 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* issued by the Comptroller General of the United States (*Government Auditing Standards*). 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.

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 GAAS, 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 22, 2023 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.

Eide Bailly LLP

Boise, Idaho
September 22, 2023

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, 2023. 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, 2023. The summarized change in fiduciary net investment position table compares the fiduciary net investment position of each major investment classification at June 30, 2023, with those at June 30, 2022. 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

MARKET ENVIRONMENT – BEGINNING OF FISCAL YEAR 2023

Fiscal Year 2023 came on the heels of one of the worst quarters for equity and bond markets in recent history. During the second half of Fiscal Year 2022, a confluence of factors, including the ongoing conflict in Ukraine and its impact on commodity prices, COVID-related supply chain disruptions, labor shortages, and geopolitical tensions, led to historically high inflation figures in many countries. The United States (U.S.) Consumer Price Index (CPI), which captures the cost of a sample of goods and services representative of a typical consumer's spending, rose 9.1 percent from a year earlier ("year-over-year"), a level of inflation not seen in the U.S. since the early 1980s. This "headline" inflation led central banks, such as the U.S. Federal Reserve (Fed), the European Central Bank, and the Bank of England, to raise interest rates in response.

FIRST QUARTER OF FISCAL YEAR 2023 (JULY 1, 2022 TO SEPTEMBER 30, 2022)

In the first quarter of Fiscal Year 2023, the U.S. received some relief from high energy prices and headline inflation figures eased. However, "core" CPI, which excludes the more volatile food and energy costs, continued to rise. Inflation in the U.S. remained elevated as a strong labor market pushed wages up, buoying consumers' ability to maintain healthy spending levels in the face of rising prices. Shelter and medical care costs also remained high, contributing to a persistently high core inflation rate. In response, the Fed raised interest rates twice during the quarter, bringing the federal fund's target rate range to 3.00 to 3.25 percent.

During this quarter, investors also noted signs of slowing global growth. The purchasing managers indices (PMIs), which are a gauge of economic conditions based on purchasing managers sentiment, warned of declining new orders, slower export business, and rising levels of unsold inventory. In particular, the J.P.

Morgan Global Composite PMI for August signaled a slowdown in global economic activity for the first time since June 2020. Estimates of the U.S. gross domestic product (GDP), a measure of economic output, indicated that the U.S. economy had contracted in the first two calendar quarters of 2022, a so-called “technical recession”. Persistently high core inflation and a negative economic outlook weighed on equity markets, and the MSCI Developed Markets World Investable Market Index (IMI), a broad measure of developed equity market returns, declined 6.1 percent for the quarter, further compounding a dismal 2022 for equity investors. Countries in emerging markets underperformed those in developed markets during the quarter, with the MSCI Emerging Markets IMI losing 10.8 percent. U.S. interest rates, as measured by the U.S. 10-year Treasury rate, were higher as well. They closed out the quarter at 3.8 percent, up 0.8 percent from the previous quarter. These higher interest rates negatively impacted the returns in the fixed income markets, and the Bloomberg U.S. Universal Index, a measure of the total U.S. dollar-denominated, fixed-rate, taxable bond market, lost 4.5 percent for the quarter.

SECOND QUARTER OF FISCAL YEAR 2023 (OCTOBER 1, 2022 TO DECEMBER 31, 2022)

The second quarter of Fiscal Year 2023 brought more signs of an impending slowdown in global manufacturing as respondents to PMI surveys noted a slump in new orders and rising inventory levels. On a positive note, GDP data from the Commerce Department indicated the U.S. economy had grown by 3.2 percent (annualized) in the third calendar quarter of 2022, as consumer spending helped the economy rebound from two prior quarters of contraction. Headline inflation remained high during the quarter but continued to trend downward, and core inflation finally began to subside as supply chain pressures eased. Inflation figures remained well outside of the Fed’s desired range, and the labor market remained tight amid strong demand for workers. The Fed responded by raising its policy rate twice during the quarter. At the end of the quarter, the range for the Fed’s target rate was 4.25 to 4.50 percent. The decline in inflation was positive for equity markets, and the MSCI Developed Markets World IMI returned 9.9 percent for the quarter. Emerging markets also performed well, with the MSCI Emerging Markets IMI up 9.5 percent. This helped ease some of the declines experienced in the equity markets throughout the calendar year 2022. In the fixed income markets, longer-maturity interest rates remained unchanged during the quarter despite the Fed’s moves. Credit spreads narrowed in line with the positive equity market performance, and, combined with a lack of significant movements in long-term interest rates, fixed income indices enjoyed positive returns during the quarter. The Bloomberg U.S. Universal Index gained 2.2 percent for the quarter to close out a rough calendar year for fixed income investors.

THIRD QUARTER OF FISCAL YEAR 2023 (JANUARY 1, 2023 TO MARCH 31, 2023)

The third quarter of Fiscal Year 2023 began with a sense of optimism as many investors believed global central banks would halt interest rate hikes as inflation continued to retreat. This sentiment soon faded as February brought concerns that the global economy was overheating, which might necessitate keeping interest rates higher for longer. In March, fears of another global financial crisis took hold following the collapse of Silicon Valley Bank, the second-largest banking failure in U.S. history. This led to a major sell-off in the U.S. and European financial sectors. Overall, lower energy and oil prices, coupled with optimism about the reopening of China following three years of Covid-19 lockdowns, improved business sentiment during the quarter, as illustrated by a rebound in the S&P Global U.S. and European Composite PMIs. The U.S. labor market remained resilient as March non-farm payrolls showed continued job growth. Average hourly earnings rose by just 0.3 percent month over month, reflecting gradually decelerating wage pressures. The March CPI report showed headline inflation falling to 5.0 percent year-over-year, far from the peak of 9.1 percent in June 2022. Slowing growth rates in wages and housing costs signaled a continued downward trend in inflation. The Fed raised interest rates twice more during the quarter, bringing the target range to 4.75 to 5.0 percent, with Fed Chair Jay Powell warning that additional increases were still on the table. Developed equity markets enjoyed a positive quarter as the MSCI Developed Markets World IMI returned 7.3 percent. Emerging markets trailed well behind, with a return of 3.9 percent for the MSCI Emerging Markets IMI. Despite the robust equity markets and interest rate hikes, the U.S. 10-year Treasury yield declined by 0.4 percent to end the quarter at 3.5 percent. The Bloomberg U.S. Universal gained 2.9 percent for the quarter as a result of the falling yields.

FOURTH QUARTER OF FISCAL YEAR 2023 (APRIL 1, 2023 TO JUNE 30, 2023)

In the last quarter of Fiscal Year 2023, concerns about the U.S. “debt ceiling” took center stage. In January, the U.S. officially reached its statutory debt limit, commonly known as the “debt ceiling”. The U.S. Treasury was able to extend the limit temporarily but warned it would exhaust its options by June 5th. Investors remained on edge as congressional negotiations dragged on. In late May, congressional members reached a compromise on legislation to suspend the debt ceiling, which was swiftly approved by Congress and signed into law by President Biden. The deal included concessions on spending, which were not expected to slow economic growth.

Meanwhile, there were signs that U.S. inflation might return to acceptable levels and the Fed might stop hiking rates. By June, headline inflation fell to 3.0 percent year-over-year amid a continued decline in energy costs. The U.S. unemployment rate increased in May from 3.4 to 3.7 percent, a larger-than-expected move, but the labor market remained historically tight. After increasing its target rate range to 5.0 to 5.25 percent in May, the Fed held off on further rate increases in June.

The quarter ended with strong equity markets as global investors reacted positively to slowing inflation and optimism that an end to the Fed’s interest rate hikes was on the horizon. Enthusiasm about the latest breakthroughs in generative artificial intelligence also boosted tech stocks. The MSCI Developed Markets World IMI returned 6.4 percent for the quarter and 17.9 percent for the fiscal year that ended June 30, 2023. Emerging markets continued to trail developed markets, with the MSCI Emerging Markets IMI returning 1.6 percent for the quarter and 3.2 percent year-over-year.

Despite the Fed’s decision to pause interest rate increases, the U.S. 10-year Treasury yield rose to end the quarter and fiscal year at 3.8 percent, an increase of 0.8 percentage points from the previous fiscal year. In fixed income markets, both investment grade and high yield spreads narrowed further, with year-over-year declines of 32 and 179 basis points, respectively. The Bloomberg U.S. Universal ended the quarter down 0.6 percent to close out Fiscal Year 2023 at a slight loss.

ANALYSIS OF CHANGES TO FIDUCIARY NET INVESTMENT POSITION

As shown in the following table, the fiduciary net investment position of the WSOS Fund increased by $3.4 million for the fiscal year ended June 30, 2023. Net realized and unrealized gains increased the overall fiduciary net investment position by $5.5 million. Net withdrawals from the WSOS Fund during the year decreased the fiduciary net investment position by $2.4 million.

Net investment income increased by 160.5 percent from the previous fiscal year, primarily from increases in realized and unrealized gains in equity and debt securities. These market related gains increased significantly from the previous year, the result of large increases in overall returns year-over-year, as discussed previously in the General Market Commentary. The current fiscal year return for the WSOS Fund was 6.5 percent, compared to the prior fiscal year return of (9.4) 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 $2.4 million from private scholarship funds during the current fiscal year, which was a decrease in net withdrawals of $6.1 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 are liquidated by the WSIB from the invested balances with the goal of maintaining strategic asset allocation targets.

As a result of a strategic asset allocation study, the WSIB increased the public equity target by 5.0 percent, with a corresponding decrease to the cash allocation in the WSOS scholarship portfolio. The portfolio was rebalanced in November to implement the newly approved asset allocation targets. As a result, $3.8 million was transferred from cash and invested in equity securities. The remaining transfers between asset classes noted in the following schedule reflect investment trades to support the withdrawal requests of $2.4 million by the WSOS Fund administrator or to maintain invested balances within policy ranges throughout the year.

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.

	Summarized Change in Fiduciary Net Investment Position and Returns by Asset Class									
	Fiscal Year End June 30, 2023				Fiscal Year End June 30, 2022				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	$ 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%
Investment Income:										
Interest, Dividends, and Other Investment Income	302,894	-	7,795	310,689	55,292	-	2,447	57,739	252,950	438.1%
Realized and Unrealized Gains (Losses)	-	1,254,947	4,287,683	5,542,630	-	(5,313,642)	(4,292,577)	(9,606,219)	15,148,849	157.7%
Less: Investment Expenses	(19,966)	(9,644)	(12,050)	(41,660)	(32,536)	(9,846)	(12,211)	(54,593)	(12,933)	-23.7%
Net Investment Income (Loss)	282,928	1,245,303	4,283,428	5,811,659	22,756	(5,323,488)	(4,302,341)	(9,603,073)	15,414,732	160.5%
Net Withdrawal by WSOS	(2,433,914)	-	-	(2,433,914)	(8,570,000)	-	-	(8,570,000)	6,136,086	-71.6%
Transfers to Other Asset Classes	(5,872,312)	1,598,144	4,274,168	-	4,970,987	(2,193,215)	(2,777,772)	-	-	N/A
Ending Fiduciary Net Investment Position	**$ 4,995,521**	**$ 58,781,884**	**$ 30,680,796**	**$ 94,458,201**	**$ 13,018,819**	**$ 55,938,437**	**$ 22,123,200**	**$ 91,080,456**	**$ 3,377,745**	**3.7%**
Increase (Decrease) in Fiduciary Net Investment Position	**$ (8,023,298)**	**$ 2,843,447**	**$ 8,557,596**	**$ 3,377,745**						
Percent Change in Fiduciary Net Investment Position	**-61.6%**	**5.1%**	**38.7%**	**3.7%**						
One Year Time Weighted Return - June 30, 2023	**3.7%**	**2.2%**	**16.5%**	**6.5%**						
One Year Time Weighted Return - June 30, 2022	**0.2%**	**-8.6%**	**-16.3%**	**-9.4%**						

(*) 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 $8.0 million. As discussed previously, withdrawals of $2.4 million were requested by the administrator and approximately $5.9 million was subsequently transferred to other asset classes to maintain strategic asset allocation targets throughout the year. Cash returns for the one-year period ended June 30, 2023, increased over the prior fiscal year to 3.7 percent, resulting from 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 350 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 increased by $2.8 million over the prior fiscal year. Realized and unrealized gains earned during the current fiscal year of $1.3 million increased the fiduciary net investment position, the result of positive returns in the debt portfolio. This increase was complimented by transfers of $1.6 million from cash and invested in debt securities to maintain strategic asset allocation targets, as discussed previously. 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. The significant increase in returns from the prior fiscal year contributed to the increase of net realized and unrealized gains in the current year.

  Performance of the Bond Fund for the fiscal year ended June 30, 2023, was 2.2 percent, which outperformed its benchmark, the Bloomberg U.S. Intermediate Credit Index, which returned 1.6 percent. The fund maintained an overweight to emerging market credit where spreads narrowed more than the investment grade credit spreads in the benchmark, contributing to the outperformance. In addition, the portfolio benefited from holding higher-yielding securities than the benchmark throughout the fiscal year. Narrowing credit spreads in a raising rate environment contributed to positive bond market returns and drove returns significantly higher than the previous year.

  See the Daily Valued Funds audited financial statements for additional information on this investment vehicle and the General Market Commentary for additional economic and market information.

- ***Equity securities*** fiduciary net investment position increased by $8.6 million. Realized and unrealized gains earned in the current fiscal year increased equity balances by $4.3 million, the result of positive returns in the equity markets. This increase was complimented by transfers of $4.3 million from cash and invested in equity securities to maintain strategic asset allocation targets. The overall investment return for equity securities in the current fiscal year was 16.5 percent, a significant increase from the prior fiscal year return of (16.3) percent. The WSOS Fund's global equity portfolio is passively managed 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 16.5 percent.

  See General Market Commentary for additional economic and market information.

The fair value of the WSOS Fund's 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.

WSOS STATEMENT OF FIDUCIARY NET INVESTMENT POSITION
JUNE 30, 2023

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	$ 4,351,163	$ 607,149	$ 17,326	$ 4,975,638	5.3%
DEBT SECURITIES					
Commingled Intermediate Credit	57,568,759	1,213,125	-	58,781,884	62.2%
EQUITY SECURITIES					
Collective Equity Index Funds	25,515,681	5,166,447	-	30,682,128	32.5%
Total Investments	87,435,603	6,986,721	17,326	94,439,650	100.0%
Investment Earnings Receivable	18,550	2,586	74	21,210	
Total Assets	87,454,153	6,989,307	17,400	94,460,860	
LIABILITIES					
Accrued Expenses Payable	2,246	410	3	2,659	
FIDUCIARY NET INVESTMENT POSITION	**$ 87,451,907**	**$ 6,988,897**	**$ 17,397**	**$ 94,458,201**	

WSOS STATEMENT OF CHANGES IN FIDUCIARY NET INVESTMENT POSITION
YEAR ENDED JUNE 30, 2023

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	$ 285,676	$ 24,531	$ 482	$ 310,689
Net Realized and Unrealized Gains (Losses)	4,785,844	756,786	-	5,542,630
Less:				
Investment Expenses	(24,043)	(2,597)	(24)	(26,664)
WSIB Operating Expenses	(13,982)	(1,014)	-	(14,996)
Net Investment Income (Loss)	5,033,495	777,706	458	5,811,659
Cash Transfers	15,658	1,242	(16,900)	-
Net Amount Withdrawn	(2,453,914)	-	20,000	(2,433,914)
Increase (Decrease) in Fiduciary Net Investment Position	2,595,239	778,948	3,558	3,377,745
FIDUCIARY NET INVESTMENT POSITION, JUNE 30, 2022	84,856,668	6,209,949	13,839	91,080,456
FIDUCIARY NET INVESTMENT POSITION, JUNE 30, 2023	$ 87,451,907	$ 6,988,897	$ 17,397	$ 94,458,201

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 WSIB, 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 fair 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, 2023, 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, 2023. 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, 2023, 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's fair value at any time. There was no concentration of credit risk that exceeded these limits as of June 30, 2023.

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, 2023, consisted of $11.8 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.

Inputs used to measure fair value might fall in different levels of the fair value hierarchy; in which case, the method used is to 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, and any third-party valuations are reviewed for reasonableness and compliance with relevant accounting standards.

The following table presents fair value measurements at June 30, 2023:

	Fair Value
INVESTMENTS	
INVESTMENTS MEASURED AT NET ASSET VALUE	
Collective Investment Trust Equity Index Funds	$ 30,682,128
Commingled Intermediate Credit	58,781,884
Total Investments at Net Asset Value	89,464,012
Total Investments Measured at Fair Value	$ 89,464,012

COMMINGLED INVESTMENT FUNDS (INVESTMENTS MEASURED AT NET ASSET VALUE)

The WSOS Fund 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 WSOS Fund invests in the Bond Fund managed by the WSIB, whose audited financials are included in the Daily Valued Funds 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.

The commingled equity index funds are invested in publicly traded equity securities and are 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).

NOTE 5. SUMMARY OF INVESTMENT POLICY

Under RCW 43.33A.030, trusteeship of WSOS 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 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 fair value at the time of purchase, nor shall its fair value exceed 6 percent of the fund's fair 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.

PRIVATE FUNDS

The public equity component is 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.

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 short-term securities 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 Match Funds - Scholarship and Endowment	Target	Range
Cash	100%	100%
Private Fund Scholarship	**Target**	**Range**
Public Equity	30%	± 5%
Fixed Income	70%	± 5%
Cash	0%	+ 5%
Private Fund Endowment	**Target**	**Range**
Public Equity	80%	± 5%
Fixed Income	20%	± 5%
Cash	0%	+ 5%

SCHEDULE 1

SCHEDULE OF MATURITIES AND CREDIT RATINGS

Investment Type	Total Fair Value	Maturity: Less than 1 year	Maturity: 1-5 years	Maturity: 6-10 years	Maturity: More than 10 years	Effective Duration*	Credit Rating
Commingled Intermediate Credit	$ 58,781,884	$ 3,232,204	$ 32,015,628	$ 22,297,890	$ 1,236,162	4.1	Schedule 2
Investments Not Required to be Categorized							
Collective Investment Trust Equity Index Funds	30,682,128						
Short-Term Investment Funds	4,975,638						
Total Investments Not Categorized	35,657,766						
Total Investments	$ 94,439,650						

* Duration excludes cash and cash equivalents

SCHEDULE 2

ADDITIONAL CREDIT RATING DISCLOSURES

Moody's Equivalent Credit Rating	Commingled Intermediate Credit Fair Value
Aaa	$ 1,141,826
Aa1	1,944,264
Aa2	1,104,623
Aa3	2,585,345
A1	6,568,581
A2	7,890,005
A3	10,820,133
Baa1	8,620,096
Baa2	10,693,188
Baa3	6,656,808
Ba1 and Lower	757,015
Total	$ 58,781,884

SCHEDULE 3

FOREIGN CURRENCY EXPOSURE

	Investment Type		
Foreign Currency Denomination	Equity Securities		Percent of Total Investments
AUSTRALIAN DOLLAR	$	590,717	0.6%
BRAZILIAN REAL		180,926	0.2%
CANADIAN DOLLAR		896,903	0.9%
SWISS FRANC		719,333	0.8%
YUAN RENMINBI		137,618	0.1%
DANISH KRONE		228,062	0.2%
EURO CURRENCY		2,477,560	2.7%
POUND STERLING		1,136,753	1.2%
HONG KONG DOLLAR		854,330	0.9%
INDONESIAN RUPIAH		67,847	0.1%
NEW ISRAELI SHEQEL		50,329	0.1%
INDIAN RUPEE		547,740	0.6%
JAPANESE YEN		1,824,007	1.9%
SOUTH KOREAN WON		420,517	0.4%
MEXICAN PESO		91,364	0.1%
NORWEGIAN KRONE		66,555	0.1%
SAUDI RIYAL		138,529	0.1%
SWEDISH KRONA		272,145	0.3%
SINGAPORE DOLLAR		103,156	0.1%
THAILAND BAHT		69,998	0.1%
SOUTH AFRICAN RAND		104,498	0.1%
NEW TAIWAN DOLLAR		545,509	0.6%
OTHER MISCELLANEOUS CURRENCIES		287,544	0.3%
Total Foreign Currency Exposure	$	11,811,940	12.5%

EideBailly
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 Washington State Opportunity Scholarship Fund as of and for the year ended June 30, 2023, 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 22, 2023.

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.

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.

Eide Bailly LLP

Boise, Idaho
September 22, 2023

DAILY VALUED FUNDS

EideBailly
CPAs & BUSINESS ADVISORS

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, 2023, 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, 2023, and the changes in fiduciary net investment position for the year then ended in accordance 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* issued by the Comptroller General of the United States (*Government Auditing Standards*). 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.

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 GAAS, 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 22, 2023 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.

Eide Bailly LLP

Boise, Idaho
September 22, 2023

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, 2023. 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, 2023. The summarized change in fiduciary net investment position table compares the fiduciary net investment position of each major investment classification at June 30, 2023, with those at June 30, 2022. 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

MARKET ENVIRONMENT – BEGINNING OF FISCAL YEAR 2023

Fiscal Year 2023 came on the heels of one of the worst quarters for equity and bond markets in recent history. During the second half of Fiscal Year 2022, a confluence of factors, including the ongoing conflict in Ukraine and its impact on commodity prices, COVID-related supply chain disruptions, labor shortages, and geopolitical tensions, led to historically high inflation figures in many countries. The United States (U.S.) Consumer Price Index (CPI), which captures the cost of a sample of goods and services representative of a typical consumer's spending, rose 9.1 percent from a year earlier ("year-over-year"), a level of inflation not seen in the U.S. since the early 1980s. This "headline" inflation led central banks, such as the U.S. Federal Reserve (Fed), the European Central Bank, and the Bank of England, to raise interest rates in response.

FIRST QUARTER OF FISCAL YEAR 2023 (JULY 1, 2022 TO SEPTEMBER 30, 2022)

In the first quarter of Fiscal Year 2023, the U.S. received some relief from high energy prices and headline inflation figures eased. However, "core" CPI, which excludes the more volatile food and energy costs, continued to rise. Inflation in the U.S. remained elevated as a strong labor market pushed wages up, buoying consumers' ability to maintain healthy spending levels in the face of rising prices. Shelter and medical care costs also remained high, contributing to a persistently high core inflation rate. In response, the Fed raised interest rates twice during the quarter, bringing the federal fund's target rate range to 3.00 to 3.25 percent.

During this quarter, investors also noted signs of slowing global growth. The purchasing managers indices (PMIs), which are a gauge of economic conditions based on purchasing managers sentiment, warned of declining new orders, slower export business, and rising levels of unsold inventory. In particular, the J.P. Morgan Global Composite PMI for August signaled a slowdown in global economic activity for the first time since June 2020. Estimates of the U.S. gross domestic

product (GDP), a measure of economic output, indicated that the U.S. economy had contracted in the first two calendar quarters of 2022, a so-called “technical recession”. Persistently high core inflation and a negative economic outlook weighed on equity markets, and the MSCI Developed Markets World Investable Market Index (IMI), a broad measure of developed equity market returns, declined 6.1 percent for the quarter, further compounding a dismal 2022 for equity investors. Countries in emerging markets underperformed those in developed markets during the quarter, with the MSCI Emerging Markets IMI losing 10.8 percent. U.S. interest rates, as measured by the U.S. 10-year Treasury rate, were higher as well. They closed out the quarter at 3.8 percent, up 0.8 percent from the previous quarter. These higher interest rates negatively impacted the returns in the fixed income markets, and the Bloomberg U.S. Universal Index, a measure of the total U.S. dollar-denominated, fixed-rate, taxable bond market, lost 4.5 percent for the quarter.

SECOND QUARTER OF FISCAL YEAR 2023 (OCTOBER 1, 2022 TO DECEMBER 31, 2022)

The second quarter of Fiscal Year 2023 brought more signs of an impending slowdown in global manufacturing as respondents to PMI surveys noted a slump in new orders and rising inventory levels. On a positive note, GDP data from the Commerce Department indicated the U.S. economy had grown by 3.2 percent (annualized) in the third calendar quarter of 2022, as consumer spending helped the economy rebound from two prior quarters of contraction. Headline inflation remained high during the quarter but continued to trend downward, and core inflation finally began to subside as supply chain pressures eased. Inflation figures remained well outside of the Fed’s desired range, and the labor market remained tight amid strong demand for workers. The Fed responded by raising its policy rate twice during the quarter. At the end of the quarter, the range for the Fed’s target rate was 4.25 to 4.50 percent. The decline in inflation was positive for equity markets, and the MSCI Developed Markets World IMI returned 9.9 percent for the quarter. Emerging markets also performed well, with the MSCI Emerging Markets IMI up 9.5 percent. This helped ease some of the declines experienced in the equity markets throughout the calendar year 2022. In the fixed income markets, longer-maturity interest rates remained unchanged during the quarter despite the Fed’s moves. Credit spreads narrowed in line with the positive equity market performance, and, combined with a lack of significant movements in long-term interest rates, fixed income indices enjoyed positive returns during the quarter. The Bloomberg U.S. Universal Index gained 2.2 percent for the quarter to close out a rough calendar year for fixed income investors.

THIRD QUARTER OF FISCAL YEAR 2023 (JANUARY 1, 2023 TO MARCH 31, 2023)

The third quarter of Fiscal Year 2023 began with a sense of optimism as many investors believed global central banks would halt interest rate hikes as inflation continued to retreat. This sentiment soon faded as February brought concerns that the global economy was overheating, which might necessitate keeping interest rates higher for longer. In March, fears of another global financial crisis took hold following the collapse of Silicon Valley Bank, the second-largest banking failure in U.S. history. This led to a major sell-off in the U.S. and European financial sectors. Overall, lower energy and oil prices, coupled with optimism about the reopening of China following three years of Covid-19 lockdowns, improved business sentiment during the quarter, as illustrated by a rebound in the S&P Global U.S. and European Composite PMIs. The U.S. labor market remained resilient as March non-farm payrolls showed continued job growth. Average hourly earnings rose by just 0.3 percent month over month, reflecting gradually decelerating wage pressures. The March CPI report showed headline inflation falling to 5.0 percent year-over-year, far from the peak of 9.1 percent in June 2022. Slowing growth rates in wages and housing costs signaled a continued downward trend in inflation. The Fed raised interest rates twice more during the quarter, bringing the target range to 4.75 to 5.0 percent, with Fed Chair Jay Powell warning that additional increases were still on the table. Developed equity markets enjoyed a positive quarter as the MSCI Developed Markets World IMI returned 7.3 percent. Emerging markets trailed well behind, with a return of 3.9 percent for the MSCI Emerging Markets IMI. Despite the robust equity markets and interest rate hikes, the U.S. 10-year Treasury yield declined by 0.4 percent to end the quarter at 3.5 percent. The Bloomberg U.S. Universal gained 2.9 percent for the quarter as a result of the falling yields.

FOURTH QUARTER OF FISCAL YEAR 2023 (APRIL 1, 2023 TO JUNE 30, 2023)

In the last quarter of Fiscal Year 2023, concerns about the U.S. “debt ceiling” took center stage. In January, the U.S. officially reached its statutory debt limit, commonly known as the “debt ceiling”. The U.S. Treasury was able to extend the limit temporarily but warned it would exhaust its options by June 5th. Investors remained on edge as congressional negotiations dragged on. In late May, congressional members reached a compromise on legislation to suspend the debt ceiling, which was swiftly approved by Congress and signed into law by President Biden. The deal included concessions on spending, which were not expected to slow economic growth.

Meanwhile, there were signs that U.S. inflation might return to acceptable levels and the Fed might stop hiking rates. By June, headline inflation fell to 3.0 percent year-over-year amid a continued decline in energy costs. The U.S. unemployment rate increased in May from 3.4 to 3.7 percent, a larger-than-expected move, but the labor market remained historically tight. After increasing its target rate range to 5.0 to 5.25 percent in May, the Fed held off on further rate increases in June.

The quarter ended with strong equity markets as global investors reacted positively to slowing inflation and optimism that an end to the Fed’s interest rate hikes was on the horizon. Enthusiasm about the latest breakthroughs in generative artificial intelligence also boosted tech stocks. The MSCI Developed Markets World IMI returned 6.4 percent for the quarter and 17.9 percent for the fiscal year that ended June 30, 2023. Emerging markets continued to trail developed markets, with the MSCI Emerging Markets IMI returning 1.6 percent for the quarter and 3.2 percent year-over-year.

Despite the Fed’s decision to pause interest rate increases, the U.S. 10-year Treasury yield rose to end the quarter and fiscal year at 3.8 percent, an increase of 0.8 percentage points from the previous fiscal year. In fixed income markets, both investment grade and high yield spreads narrowed further, with year-over-year declines of 32 and 179 basis points, respectively. The Bloomberg U.S. Universal ended the quarter down 0.6 percent to close out Fiscal Year 2023 at a slight loss.

ANALYSIS OF CHANGES TO FIDUCIARY NET INVESTMENT POSITION

As shown in the following table, the fiduciary net investment position of the DVF decreased by $0.5 million during the fiscal year ended June 30, 2023. Investment income net of expenses of $99.2 million was slightly offset by $29.1 million of unrealized losses resulting in the net investment income of $70.1 million. Net withdrawals to the DVF by participants during the year decreased the fiduciary net investment position by $70.6 million.

	Summarized Change in Fiduciary Net Investment Position and Returns by Asset Class									
	Fiscal Year End June 30, 2023				Fiscal Year End June 30, 2022				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 (**)	$ 2,195,648,805	$ 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%
Investment Income:										
Interest, Dividends, and Other Investment Income	69,691,963	27,080,466	2,882,610	99,655,039	61,732,543	20,516,050	2,251,626	84,500,219	15,154,820	17.9%
Realized and Unrealized Gains (Losses)	(23,082,841)	-	(5,991,856)	(29,074,697)	(268,550,872)	4,672	(22,083,542)	(290,629,742)	261,555,045	90.0%
Less: Investment Expenses	(266,485)	(187,986)	(31,983)	(486,454)	(512,775)	(182,915)	(45,873)	(741,563)	(255,109)	-34.4%
Net Investment Income (Loss)	46,342,637	26,892,480	(3,141,229)	70,093,888	(207,331,104)	20,337,807	(19,877,789)	(206,871,086)	276,964,974	133.9%
Net Amount Contributed (Withdrawn)	(16,028,601)	(64,723,016)	10,119,141	(70,632,476)	(111,055,989)	33,391,030	(68,222,400)	(145,887,359)	(75,254,883)	-51.6%
Ending Fiduciary Net Investment Position (**)	**$ 2,225,962,841**	**$ 960,467,419**	**$ 403,355,977**	**$ 3,589,786,237**	**$ 2,195,648,805**	**$ 998,297,955**	**$ 396,378,065**	**$ 3,590,324,825**	**$ (538,588)**	**0.0%**
Increase (Decrease) in Fiduciary Net Investment Position	**$ 30,314,036**	**$ (37,830,536)**	**$ 6,977,912**	**$ (538,588)**						
Percent Change in Fiduciary Net Investment Position	**1.4%**	**-3.8%**	**1.8%**	**0.0%**						
One Year Time Weighted Return - June 30, 2023	**2.2%**	**2.8%**	**-0.8%**	**N/A**						
One Year Time Weighted Return - June 30, 2022	**-8.6%**	**2.2%**	**-5.2%**	**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

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

- ***Net investment Income*** increased by 133.9 percent from the previous fiscal year, primarily from decreases in realized and unrealized losses within the Daily Valued Bond Fund (Bond Fund). The Bond Fund returned 2.2 percent compared to the previous fiscal year's return of (8.6) percent, resulting in a decrease in market related losses of $245.5 million year-over-year. The Treasury Inflation Protected Security (TIPS) Fund returned (0.8) percent compared to the previous fiscal year's return of (5.2) percent, resulting in a decrease in realized and unrealized losses of $16.1 million year-over-year. Interest income in the Savings Pool increased by $6.6 million compared to the previous fiscal year. As guaranteed investment contracts (GICs) matured, the WSIB reinvested the proceeds in securities with higher interest rates. Approximately $255.2 million of GICs matured during the current fiscal year, with an average interest rate of 2.8 percent. Proceeds from these maturities were reinvested in higher interest rate contracts, with an average interest rate of 4.2 percent.

  Performance of the Bond Fund for the fiscal year ended June 30, 2023, was 2.2 percent, which outperformed its benchmark, the Bloomberg U.S. Intermediate Credit Index, which returned 1.6 percent. The fund maintained an overweight to emerging market credit where spreads narrowed more than the investment grade credit spreads in the benchmark, contributing to the outperformance. In addition, the portfolio benefited from holding higher-yielding securities than the benchmark throughout the fiscal year. Narrowing credit spreads in a raising rate environment contributed to positive bond market returns and drove returns significantly higher than the previous year.

The TIPS Fund returned (0.8) percent for the fiscal year, which outperformed its benchmark return, the Bloomberg U.S. Treasury Inflation Protected Securities Index, of (1.4) percent. Steep increases in nominal and inflation-linked yields at the beginning of the fiscal year had a negative impact on TIPS Fund returns. Declines to headline inflation in March drove strong performance and brought the portfolio back to positive return territory. As investors grew nervous about the debt ceiling crisis, real yields moved up in May, which again dragged the portfolio's return below zero. The outperformance compared to the benchmark was a result of maintaining a slightly shorter duration early in the fiscal year, which left the fund less sensitive to rising interest rates.

See the General Market Commentary for additional economic and market information.

- ***Net contributions and withdrawals*** from the DVF decreased by $75.3 million as compared to the prior fiscal year. Net withdrawals from the Bond Fund decreased by $95.0 million, net contributions to the TIPS Fund increased by $78.3 million, and net withdrawals from the Savings Pool increased by $98.1 million year-over-year.

  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 also 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. In the previous 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 RSF glide path in October 2022, causing the large change year-over-year. See the Retirement Funds audited financial statements for more information.

- ***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.

DVF STATEMENT OF FIDUCIARY NET INVESTMENT POSITION
JUNE 30, 2023

SEE NOTES TO FINANCIAL STATEMENTS

	Bond Fund	Savings Pool	TIPS Fund	Total	Percent of Total
ASSETS					
Investments					
CASH AND CASH EQUIVALENTS	$ 34,131,656	$ 63,933,807	$ 4,263,721	$ 102,329,184	2.9%
DEBT SECURITIES					
Corporate Bonds	1,918,745,650	-	-	1,918,745,650	
U.S. Government and Agency Securities	-	-	397,975,814	397,975,814	
Guaranteed Investment Contracts	-	894,515,503	-	894,515,503	
Foreign Government and Agencies	273,675,200	-	-	273,675,200	
Total Debt Securities	2,192,420,850	894,515,503	397,975,814	3,484,912,167	97.1%
Total Investments	2,226,552,506	958,449,310	402,239,535	3,587,241,351	100.0%
Investment Earnings Receivable	19,431,438	2,031,763	1,121,819	22,585,020	
Total Assets	2,245,983,944	960,481,073	403,361,354	3,609,826,371	
LIABILITIES					
Accounts Payable	40,703	13,654	5,377	59,734	
Payable for Investments Purchased	19,980,400	-	-	19,980,400	
Total Liabilities	20,021,103	13,654	5,377	20,040,134	
FIDUCIARY NET INVESTMENT POSITION	$ 2,225,962,841	$ 960,467,419	$ 403,355,977	$ 3,589,786,237	

DVF STATEMENT OF CHANGES IN FIDUCIARY NET INVESTMENT POSITION
YEAR ENDED JUNE 30, 2023

SEE NOTES TO FINANCIAL STATEMENTS

	Bond Fund	Savings Pool	TIPS Fund	Total
Net Investment Income				
Investment Income				
Interest, Dividends and Other Investment Income	$ 69,691,963	$ 27,080,466	$ 2,882,610	$ 99,655,039
Net Realized and Unrealized Gains (Losses)	(23,082,841)	-	(5,991,856)	(29,074,697)
Less:				
Investment Expenses	(266,485)	(187,986)	(31,983)	(486,454)
Net Investment Income (Loss)	46,342,637	26,892,480	(3,141,229)	70,093,888
Net Amount Contributed (Withdrawn)	(16,028,601)	(64,723,016)	10,119,141	(70,632,476)
Increase (Decrease) in Fiduciary Net Investment Position	30,314,036	(37,830,536)	6,977,912	(538,588)
FIDUCIARY NET INVESTMENT POSITION, JUNE 30, 2022	2,195,648,805	998,297,955	396,378,065	3,590,324,825
FIDUCIARY NET INVESTMENT POSITION, JUNE 30, 2023	$ 2,225,962,841	$ 960,467,419	$ 403,355,977	$ 3,589,786,237

NOTES TO FINANCIAL STATEMENTS

NOTE 1. DESCRIPTION OF FUNDS AND SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF FUNDS

The DVF of Washington State consist of three commingled investment options managed exclusively by WSIB staff. All three investment options are valued daily at fair value or at cost. The Bond Fund is available for investment by any fund under trusteeship of the WSIB. The trust is established to invest primarily in intermediate maturity credit bonds. The Bond Fund is valued at fair 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 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	10.8%	99.8%	N/A
Judicial Retirement Account	Trace	0.2%	N/A
Washington State Retirement System Defined Contribution Participants	16.1%	N/A	N/A
Developmental Disabilities Endowment Trust Fund	0.4%	N/A	N/A
Guaranteed Education Tuition Program	41.6%	N/A	N/A
VFFRO	2.9%	N/A	N/A
Washington State Opportunity Scholarship Fund	2.6%	N/A	N/A
Alliance Bernstein Retirement Strategy Funds	25.6%	N/A	100%

The WSIB has exclusive control of the investments held by the DVF. The financial statements do not present the financial position or the 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 fair 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, 2023, 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, 2023. 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, 2023, 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, 2023.

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, 2023, 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, 2023.

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 2023, 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 2023, 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 method used is to 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 DVF receive fair value prices for debt securities directly from the 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, 2023:

		Fair Value Measurements Using:		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
INVESTMENTS				
DEBT SECURITIES				
Corporate Bonds	$ 1,918,745,650	$ -	$ 1,918,745,650	$ -
U.S. and Foreign Government and Agency Securities	671,651,014	-	671,651,014	-
Total Debt Securities	$ 2,590,396,664	$ -	$ 2,590,396,664	$ -
Total Investments Measured at Fair Value	$ 2,590,396,664			

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 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 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 fair value.

SAVINGS POOL

The primary objective for the Savings Pool is to ensure the preservations of principal, defined as the maintenance of a one-dollar net asset value. The fund must hold sufficient cash to meet any withdrawal requests. The 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.

SCHEDULE 1

SCHEDULE OF MATURITIES AND CREDIT RATINGS

		Maturity					
Investment Type	**Total Fair Value**	**Less than 1 year**	**1-5 years**	**6-10 years**	**More than 10 years**	**Effective Duration ***	**Credit Rating**
Corporate Bonds	$ 1,918,745,650	$ 74,206,480	$ 1,070,327,555	$ 746,032,665	$ 28,178,950	4.1	Schedule 2
U.S. Government and Agency Securities	397,975,814	-	237,654,461	96,282,716	64,038,637	7.0	Aaa
Guaranteed Investment Contracts	894,515,503	147,781,190	746,734,313	-	-	N/A	Not Rated
Foreign Government and Agencies	273,675,200	14,649,200	142,045,950	98,347,800	18,632,250	4.3	Schedule 2
	3,484,912,167	$ 236,636,870	$ 2,196,762,279	$ 940,663,181	$ 110,849,837		
Investments Not Required to be Categorized							
Cash and Cash Equivalents	102,329,184						
Total Investments Not Categorized	102,329,184						
Total Investments	$ 3,587,241,351						

* Duration excludes cash and cash equivalents

SCHEDULE 2

ADDITIONAL CREDIT RATING DISCLOSURES

	Investment Type	
Moody's Equivalent Credit Rating	Corporate Bonds	Foreign Government and Agency Securities
Aaa	$ 23,761,050	$ 18,826,250
Aa1	28,101,400	44,414,900
Aa2	18,299,550	22,900,200
Aa3	72,954,900	23,472,150
A1	186,237,820	58,754,200
A2	261,007,165	33,270,750
A3	403,564,555	-
Baa1	321,508,540	-
Baa2	358,051,800	40,778,100
Baa3	217,024,070	31,258,650
Ba1 or Lower	28,234,800	-
Total	$ 1,918,745,650	$ 273,675,200

EideBailly®

CPAs & BUSINESS ADVISORS

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

TO THE MEMBERS OF THE WASHINGTON STATE INVESTMENT BOARD

OLYMPIA, WASHINGTON

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Daily Valued Funds as of and for the year ended June 30, 2023, 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 22, 2023.

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.

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.

Eide Bailly LLP

Boise, Idaho
September 22, 2023

WASHINGTON STATE INVESTMENT BOARD

WWW.SIB.WA.GOV