



**WSIB Performance Update  
Department of Retirement Systems  
Advisory Committee**



**Theresa Whitmarsh, Executive Director  
May 21, 2010**



## Overview



- ▣ **Mission**
- ▣ **Organizational Structure**
- ▣ **Investment Responsibility**
- ▣ **Assets Under Management**
- ▣ **Commingled Trust Fund Performance**
- ▣ **Cost Effectiveness**
- ▣ **Challenges**
- ▣ **Summary**



## Our Mission



**Invest with integrity, prudence, and skill to meet or exceed the financial objectives of those we serve.**



# Organizational Structure



- Board comprised of 15 members
  - 10 voting
  - 5 non-voting
  
- 79 staff
  
- Approximately 120 investment managers under contract

Appointment Authority		Name	Position
10 Voting	Ex-Officio	Jim McIntire, Vice Chair	State Treasurer
		Steve Hill	Director, DRS
		Judy Schurke	Director, Labor & Industries
	Senate President	Lisa Brown	State Senator
	House Speaker	Sharon Tomiko Santos	State Representative
	Governor	Mason Petit	Active Member, PERS
		George Masten	Retired Member, PERS
		Patrick McElligott, Chair	Active Member, LEOFF
		Superintendent of Public Instruction	Judi Owens
		Mike Ragan	Active Member, TRS
5 Non-voting	Selected by the Board	Robert Nakahara	
		Jeffrey Seely	
		David Nierenberg	
		William A. Longbrake	
		Richard Muhlebach	



# WSIB Investment Responsibility

## Retirement Funds

- ❑ Public Employees' Plans 1, 2, 3 \*
- ❑ School Employees' Plans 2, 3 \*
- ❑ Teachers' Plans 1, 2, 3 \*
- ❑ Law Enforcement Officers' and Firefighters' Plans 1, 2
- ❑ Judicial Retirement Account – Defined Benefit
- ❑ Judicial Retirement Account – Defined Contribution
- ❑ Washington State Patrol Plans 1, 2
- ❑ Volunteer Firefighters' Relief and Pension Fund
- ❑ Deferred Compensation Program
- ❑ Public Service Employees' Plan 2

## Labor and Industries' Funds

- ❑ Accident
- ❑ Medical Aid
- ❑ Pension Reserve
- ❑ Supplemental Pension

## Permanent Funds

- ❑ Agricultural College
- ❑ Common School
- ❑ Normal School
- ❑ Scientific
- ❑ State University
- ❑ Millersylvania Park Trust
- ❑ American Indian Endowed Scholarship
- ❑ Foster Care Endowed Scholarship

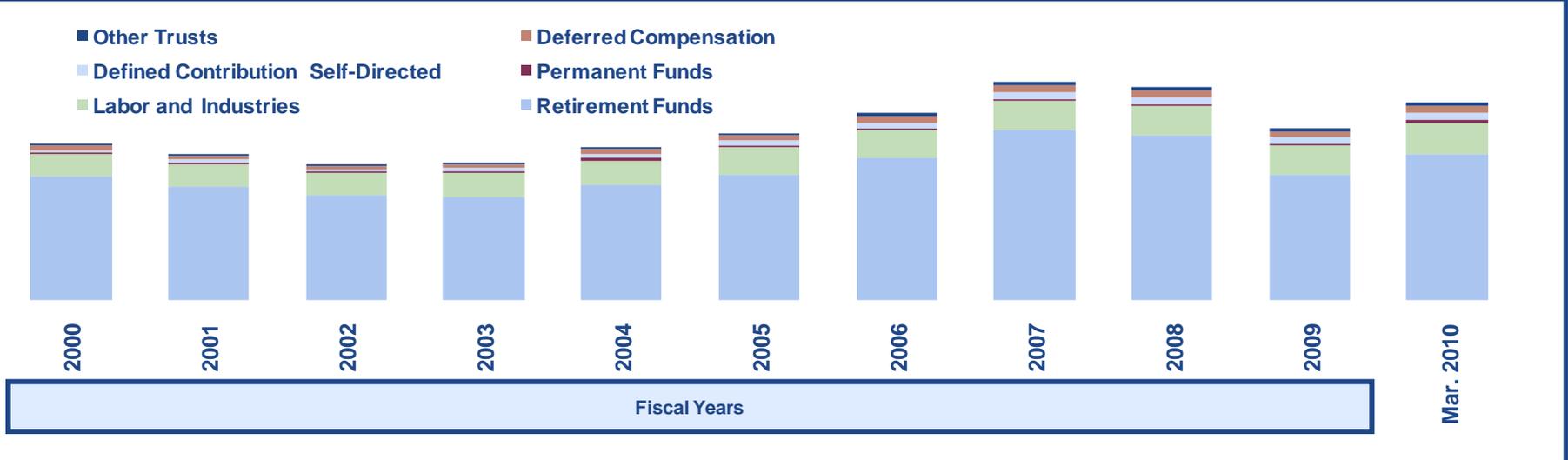
## Other Trusts

- ❑ Guaranteed Education Tuition
- ❑ Developmental Disabilities Endowment
- ❑ Game and Special Wildlife
- ❑ State Employees' Insurance Reserve
- ❑ Radiation Perpetual
- ❑ Reclamation Revolving
- ❑ Budget Stabilization
- ❑ Family and Medical Leave Insurance Fund (unfunded)
- ❑ Basic Health Plan Self Insurance Reserve (unfunded)
- ❑ Pension Stabilization (unfunded)

\* All Plan 1s are closed to new participants. The Plan 3s are hybrid plans with both defined benefit and defined contribution assets.

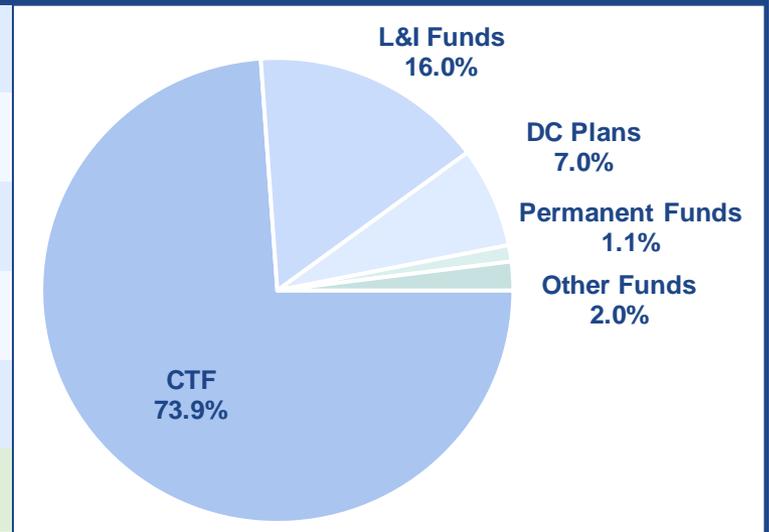
# Total Assets Under Management – March 31, 2010

## Past 10 Fiscal Years



## Market Values and Allocation (in billions)

CTF	\$55.0	73.9%
L&I Funds	\$11.9	16.0%
DC Plans	\$5.2	7.0%
Permanent Funds	\$0.8	1.1%
Other Funds	\$1.5	2.0%
<b>Total Assets Under Management</b>	<b>\$74.4</b>	

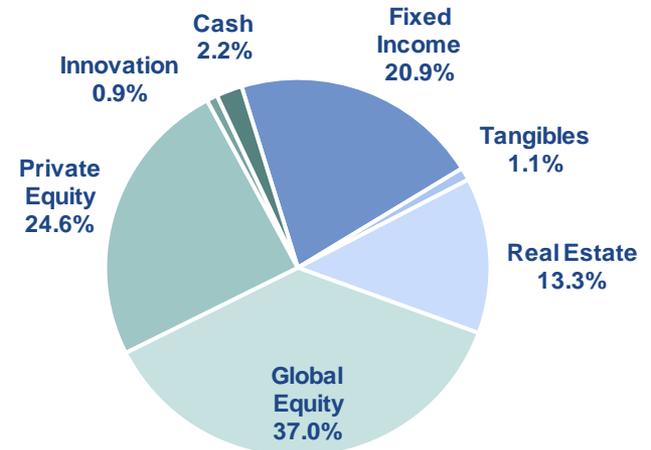


# Commingled Trust Fund Performance and Market Values – March 31, 2010

## Historical Market Value (billions)



## Actual Allocation



## Historical Fund Returns

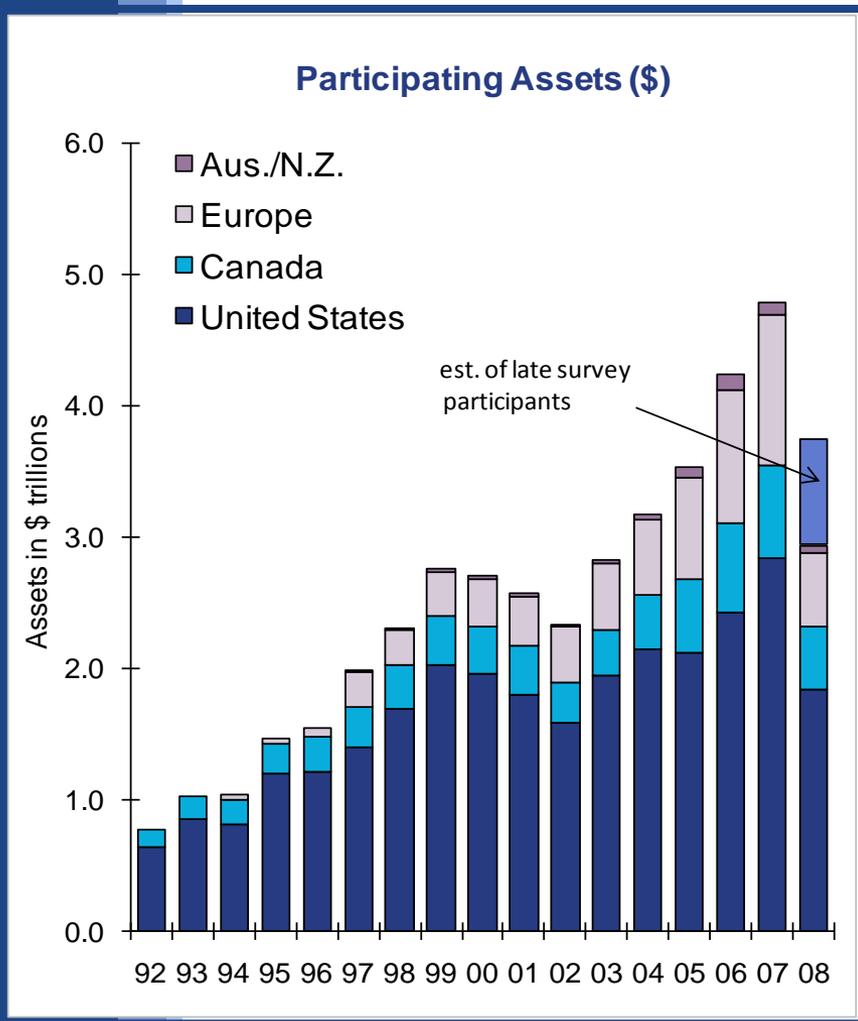


## Market Values and Returns

### Commingled Trust Fund (CTF) Market Values and Returns

	Market Value (000s)	1 Year	3 Year	5 Year	10 Year
Total CTF	\$54,954,874,834	24.72%	-1.87%	5.53%	4.23%
Fixed Income	\$11,512,974,319	16.96%	8.14%	6.90%	7.33%
Tangibles	\$591,243,983	5.12%	N/A	N/A	N/A
Real Estate	\$7,308,808,566	-12.70%	-6.56%	6.47%	9.39%
Global Equity	\$20,323,764,741	55.75%	-4.98%	3.63%	1.02%
Private Equity	\$13,527,281,499	21.07%	-1.05%	10.48%	7.91%
Innovation	\$502,195,264	54.76%	N/A	N/A	N/A
Cash	\$1,188,606,462	0.19%	2.34%	3.11%	2.34%

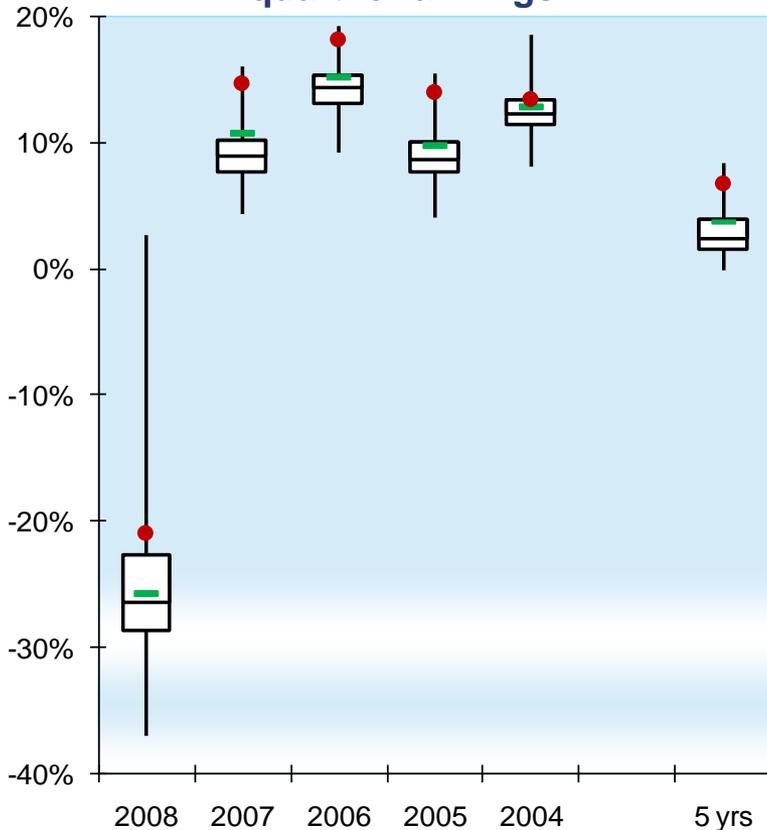
# Performance Compared to Peers for Calendar Year 2008



- ❑ Comparisons are to Cost Effective Measurement's (CEM) extensive pension performance database
- ❑ While the study is international, WSIB's universe is 162 U.S. funds with aggregate assets of \$1.8 trillion participate.
- ❑ The median U.S. fund had assets of \$3.0 billion and the average fund had assets of \$11.1 billion
- ❑ The most meaningful comparisons for WSIB's returns and value added are to the U.S. universe

# Performance Compared to Peers for Calendar Year 2008

**U.S. Total Returns  
- quartile rankings**



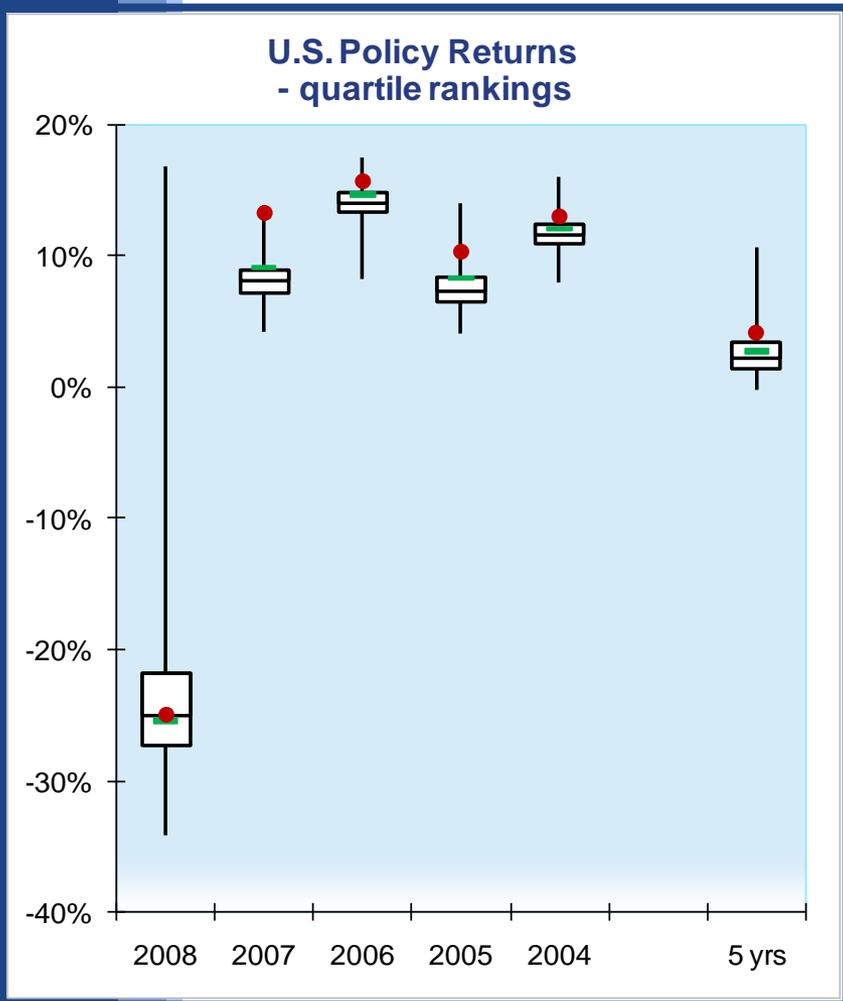
- WSIB's 5-year Total Return of 6.7% was in the top quartile of our U.S. universe
- The U.S. median return was 2.4% and WSIB's peer median was 3.8%
- Total Return is separated into its two components: Policy Return and Implementation Value Added

WSIB's 5-yr.	
Total Fund Return <sup>1</sup>	6.7%
Policy Return <sup>2</sup>	4.2%
Value Added	2.6%

1. This return is gross before the impact of management fees.

2. Policy return is based on asset class benchmark returns and policy weights.

## Performance Compared to Peers for Calendar Year 2008



- WSIB's 5-year Policy Return of 4.2% was also well above the U.S. median of 2.2% and WSIB's peer median of 2.7%
- WSIB's Policy Return is the return generated by passively investing the policy asset mix
- A higher or lower relative Policy Return is not necessarily good or bad
- This is because policy asset mix should reflect long-term capital market expectations, liabilities, and appetite for risk
- Each of these three factors is different across funds

## Performance Compared to Peers for Calendar Year 2008

### 5-Year Average Policy Mix

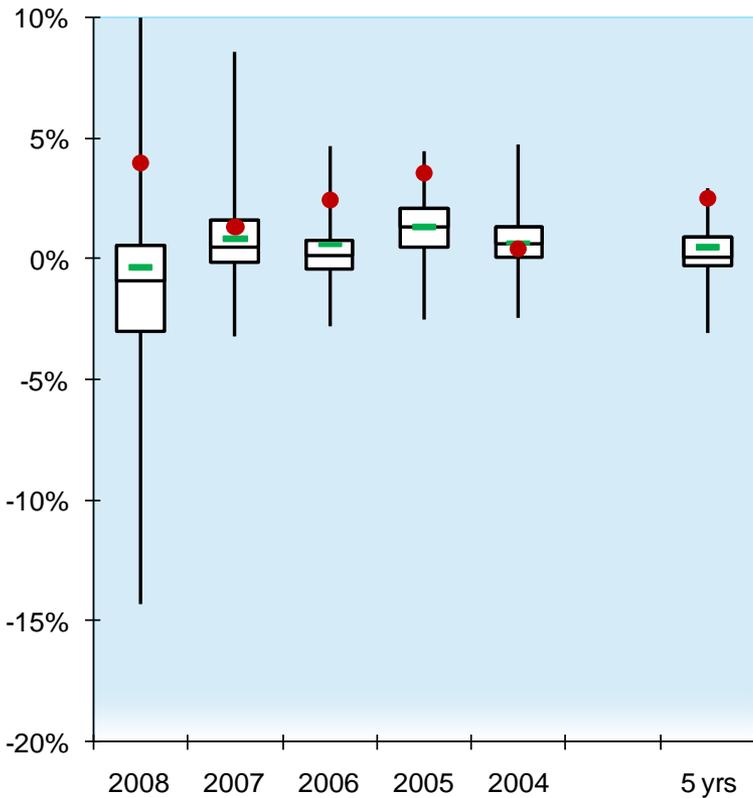
Asset class	WSIB fund	U.S. avg	Peer avg
US Stock	21%	41%	36%
EAFE/Global Stock	20%	17%	19%
<u>Emerging Mkt Stock</u>	<u>1%</u>	<u>1%</u>	<u>1%</u>
Total Stock	42%	59%	56%
Fixed Income - Broad	24%	23%	23%
Fixed Income Other	0%	7%	5%
<u>Cash</u>	<u>0%</u>	<u>1%</u>	<u>1%</u>
Total Fixed Income	24%	31%	29%
<b>Real Estate &amp; REITS</b>	<b>14%</b>	<b>5%</b>	<b>7%</b>
Hedge Funds	0%	2%	1%
<b>Private Equity</b>	<b>20%</b>	<b>4%</b>	<b>7%</b>
Total	100%	100%	100%

WSIB's 5-year Policy Return was above the U.S. median because of:

- ▣ Higher policy weight in the best performing asset class of the past 5 years: Real Estate
- ▣ Higher policy weight in the third best performing asset class of the past 5 years: Private Equity

# Performance Compared to Peers for Calendar Year 2008

U.S. Value Added  
- quartile rankings



Value Added measures the contribution from active management. **WSIB's 5-year Value Added of 2.6% was the highest in the U.S. universe.**

- WSIB's 5-yr value added of 2.6% compares to a median of 0.5% for Peers and 0.1% for the U.S.

## Washington State Investment Board

Year	Total return	Policy return	Value added		
			Total	In-category	Mix
2008	-21.0%	-25.0%	4.0%	-2.0%	6.0%
2007	14.7%	13.3%	1.4%	2.9%	-1.5%
2006	18.2%	15.7%	2.5%	2.7%	-0.2%
2005	14.0%	10.4%	3.6%	5.2%	-1.6%
2004	13.5%	13.1%	0.5%	0.7%	-0.2%
5-year	6.7%	4.2%	2.6%	1.9%	0.7%



## Performance Compared to Peers for Calendar Year 2008

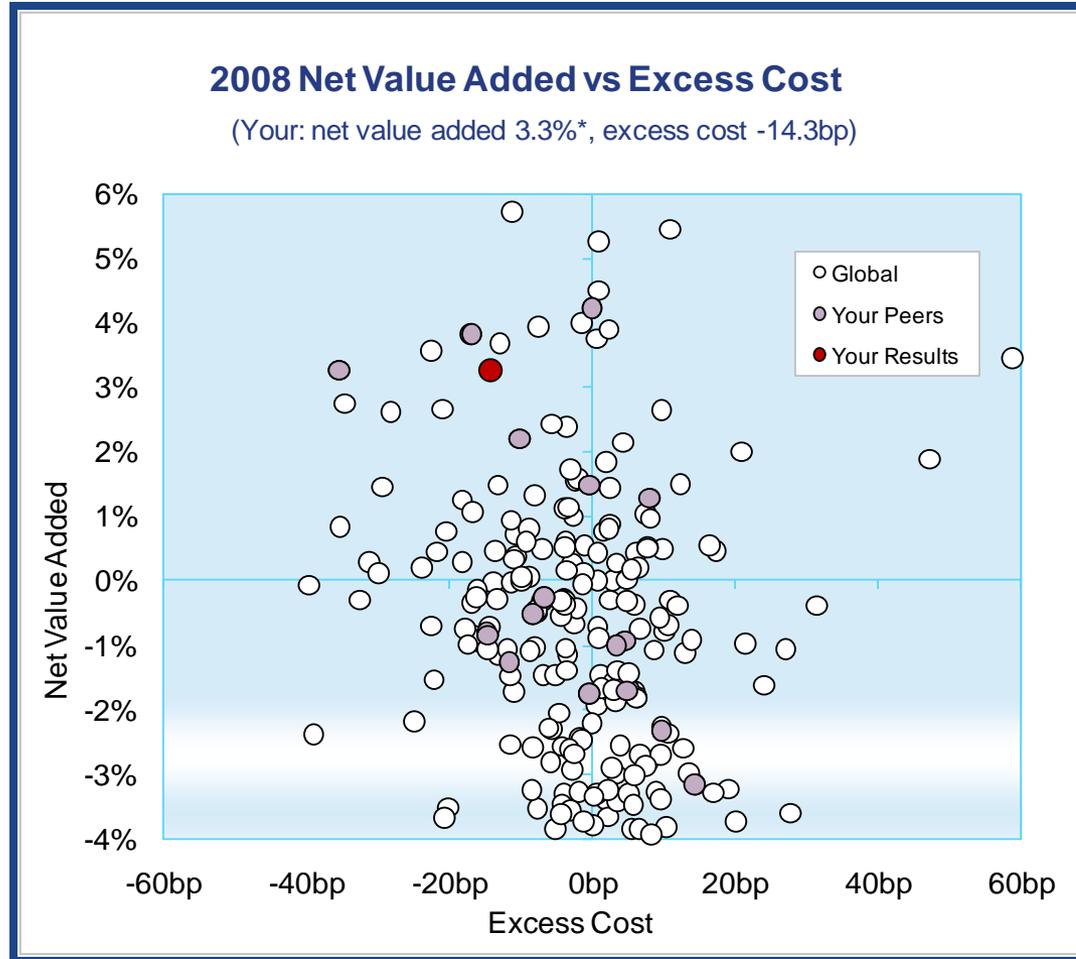
- ❑ Benchmark Cost analysis suggests that WSIB's fund was low cost by 14.3 basis points
- ❑ Benchmark Cost is an estimate of what costs would be using our asset mix and peer median costs

	In \$000's	Basis Points
WSIB's actual cost	418,345	71.7 bp
WSIB's benchmark cost	<u>502,012</u>	<u>86.1 bp</u>
WSIB's excess cost	-83,667	-14.3 bp

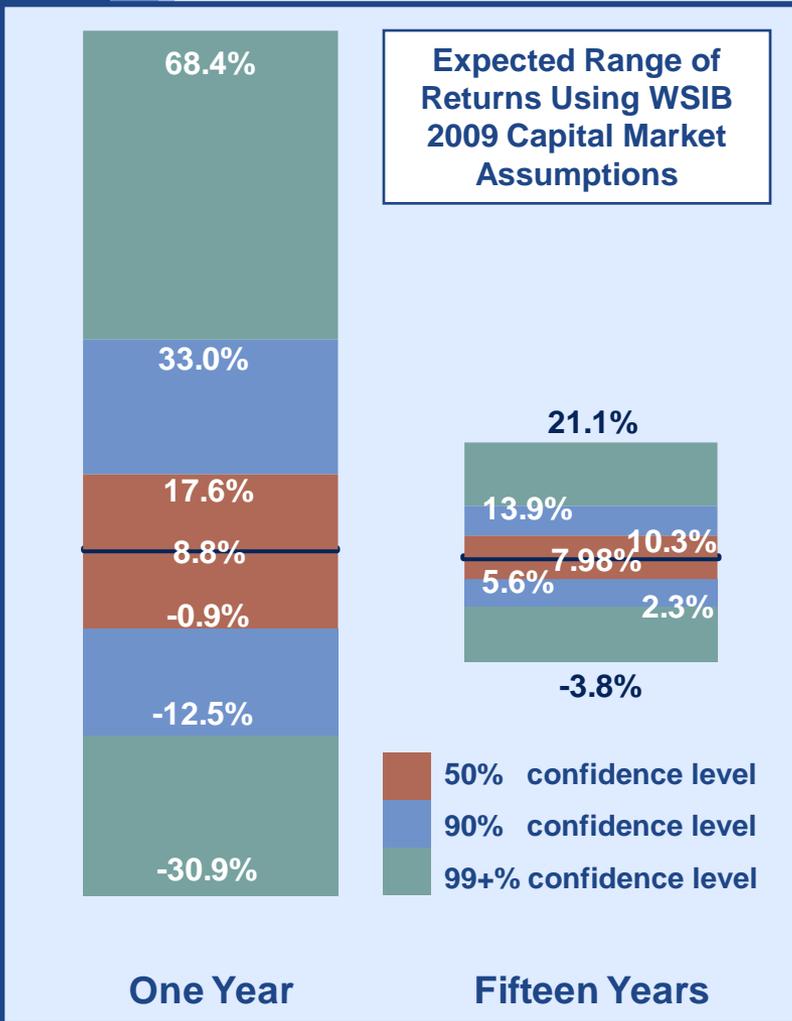


# Performance Compared to Peers for Calendar Year 2008

- Results – 5-year performance placed WSIB in the positive value added, low cost quadrant



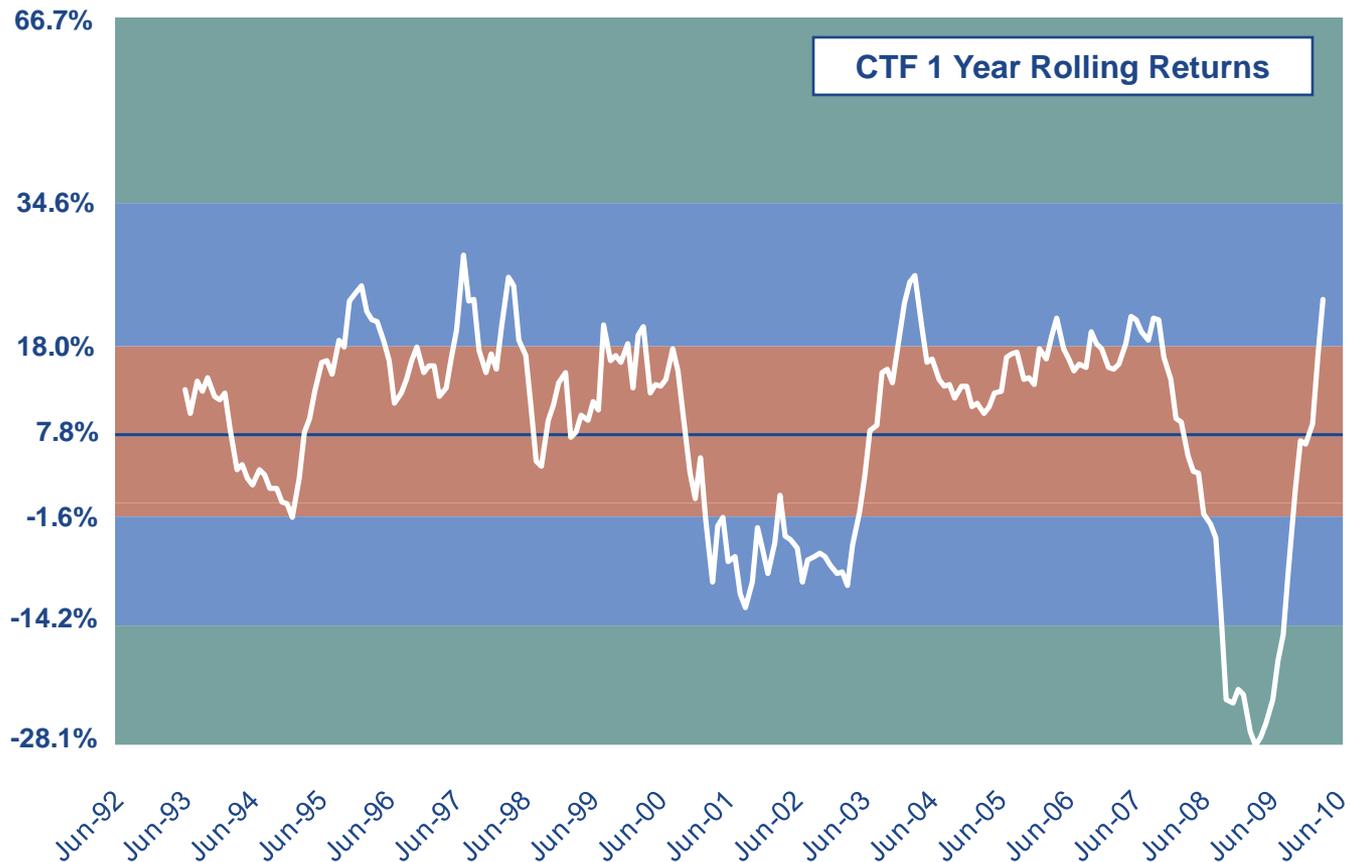
# Challenges



- Investors of long term assets need to keep an appropriate time horizon
  - While 2008/2009 losses were unprecedented, since the inception of the Combined Trust Funds, they are not outside the realm of statistical probability

# Challenges

- Short term volatility can create challenges for policy makers
- But a word of caution: risk aversion arising from a desire for lower volatility has a corresponding lower expected return, which in the long run has the potential to increase the costs to the system



## Summary



- Manage \$74.4 billion within 39 funds
- Long-term investor with a proven record of success
- Disciplined approach to investment with the highest standards of integrity
- Dedicated to working for the best interests of our beneficiaries
- Dedicated to continuous improvement

## Web Site:

<http://www.sib.wa.gov>

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360.956.4600

Welcome to WSIB - Internet Explorer provided by Dell

<http://www.sib.wa.gov/>

Welcome to WSIB

**Washington State Investment Board**  
Investing with integrity, prudence, and skill

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