Washington State Investment Board 2009

TWENTY-EIGHTH ANNUAL REPORT

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Letter of Transmittal

JUNE 30, 2009

The past year dramatically altered the landscape of the financial services industry. The government took unprecedented steps to prop up the nation's crippled banking system. Some of the biggest financial institutions no longer exist. And Congress and regulators are advocating reforms designed to prevent a financial meltdown in the future.

The Washington State Investment Board was certainly not immune to the worst recession since the Great Depression. We posted losses for the year ending June 30th, 2009, but our losses were not as deep as peer institutions and we are better positioned than many investment management firms to return to positive territory. Much of the credit for that goes to the Board, which had the strength and resolve to remain committed to the long-term asset allocation strategy that has served our beneficiaries well.

Credit also goes to the WSIB's highly skilled investment staff, which was able to deftly guide the agency through this rocky period. Of course all these efforts are supported by a talented group of experienced professionals at all levels of the agency to complement our investment strategies with stronger research and technical capabilities.

One of the lessons learned from this economic downturn is the importance of identifying and managing investment risks. The WSIB has been a leader in incorporating risk management into decision-making. In addition to these ongoing efforts, we have:

- Placed greater emphasis on other oversight procedures to ensure contract compliance and reporting accuracy.
- Maintained our commitment to excellent governance practices, which are fundamental to the WSIB's ability to continue to perform well.

Looking back on the challenges and accomplishments of the past year, I am reminded of the quote from Albert Einstein: "You have to learn the rules of the game. And then you have to play better than anyone else." While institutional investors like the WSIB can't predict what the markets will do, we have designed and implemented strategies that will enable us to more effectively cope with whatever risks and opportunities may occur.

This report describes in detail all of our portfolios, performance, operations and finance. I am confident that in good times and bad, we will continue to meet the high standards that the beneficiaries of the funds we manage expect and deserve.

Theresa Whitmarsh, Acting Executive Director

Message from the Chair

The past year has been filled with a number of significant market challenges and organizational changes for the WSIB. The public markets suffered their worst decline in my lifetime and even though we are far from out of the recessionary woods, investment returns are once again showing positive signs. I am confident that our portfolios are well positioned for the future. We are well diversified, have excellent investment partners, and highly professional investment staff.

As for organizational changes, not only is there a new Executive Director, but there has been significant turnover on the Board. New members include Washington State Treasurer Jim McIntire, Representative Sharon Tomiko Santos from the state Legislature, and Steve Hill, Director of the Department of Retirement Systems. In addition, due to a change of employment, I submitted my resignation as a member of the Board effective June, 2009.

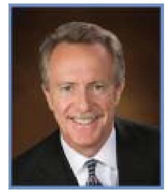
Steering the Board and staff through the market downturn and a leadership transition has been one of the greatest challenges of my public service career, but was also very satisfying. As I reflect on the last seven years as a member of this Board, despite the ups and downs I am very proud of our accomplishments. While we have yet to regain all of the ground lost in the last year, I believe we have weathered the storm.

I want to thank the Board and staff for their excellent work and unwavering dedication to the beneficiaries of the state and local pension funds and all other public funds managed by the WSIB. It was a great honor to be a part of this endeavor and I'm confident that going forward we will continue to meet the high standards set by those we serve.

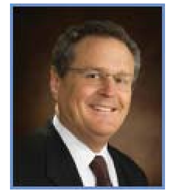
Glenn Gorton, Chair

Board Members & Committees

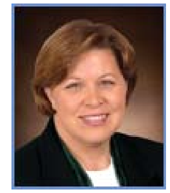
VOTING MEMBERS



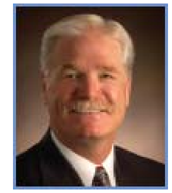
James L. McIntire, State Treasurer



Steven R. Hill, Vice Chair

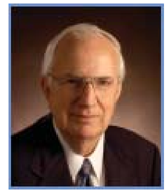


Judy Schurke

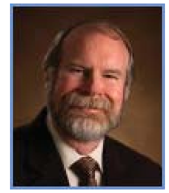


Patrick McElligott, Vice Chair

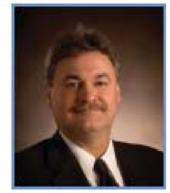
Mason A. Petit



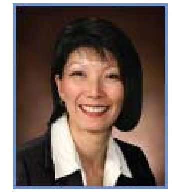
George Masten



Mike Ragan



Glenn Gorton, Chair

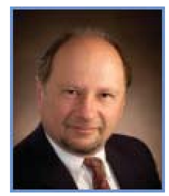


Representative Sharon Tomiko Santos

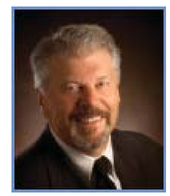
Senator Lisa Brown

NON-VOTING MEMBERS

Robert S. Nakahara, CPA



Charles A. Kaminski, CFA



John W. Magnuson, CPM

Jeffrey T. Seely

David Nierenberg

The Legislature created the WSIB in 1981 as an independent board of trustees whose fiduciary responsibility is to manage investments for retirement and public trust funds with the highest standard of professional conduct for the exclusive benefit of fund participants and beneficiaries. The Board's primary investment objective is to establish policies and procedures designed exclusively to maximize return at a prudent level of risk.

Individual Board members are appointed by the Chair to serve on any of the Board's four different committees to more efficiently analyze investment and governance issues. Committee recommendations are brought to the Board for consideration and a vote.

Administrative Committee

The Administrative Committee oversees organizational, personnel, budget, legal, and legislative issues, as well as strategic asset allocation.

Audit Committee

The Audit Committee nominates candidates for the non-voting members, develops and monitors the Board's Conflict of Interest Policy, reviews performance-reporting and audit requirements, and deals with corporate governance policies and issues.

Private Markets Committee

The Private Markets Committee develops policy and structure for private market and real estate opportunities and reviews those investments for recommendations to the Board.

Public Markets committee

The Public Markets Committee develops policy and structure for public market investments (fixed income, domestic equity, international equity) and reviews individual equity managers to recommend to the Board.

Executive Management & Consultants

THERESA J. WHITMARSH - CHIEF OPERATING OFFICER & ACTING EXECUTIVE DIRECTOR

APPOINTED IN SEPTEMBER 2003

The Operations Division provides a number of services in support of the investment function, including trade settlement, cash management, private market funding, cash and stock distributions, foreign and domestic tax matters, and investment compliance monitoring. It provides agency-wide risk management, information systems management, human resources, and administrative services.

GARY BRUEBAKER, CFA, CPA - CHIEF INVESTMENT OFFICER

APPOINTED IN FEBRUARY 2001

The Investment Division is comprised of investment professionals who manage investments in major asset classes including public equity, private equity, real estate and fixed income. The division is also served by a senior investment officer who develops asset allocation and risk budgeting strategies and a research director that provides research and analytic support. The division deploys both internal and external investment management strategies.

LIZ MENDIZABAL - PUBLIC AFFAIRS DIRECTOR

APPOINTED IN MARCH 2003

Public Affairs manages duties typically found in a client services division of an investment management agency including performance reporting, annual report preparation, corporate governance and constituent communications. In addition, it manages functions unique to a public pension fund, including legislative affairs, public disclosure, and media.

INVESTMENT ACCOUNTING DATA SYSTEM

Financial Control Systems

MASTER CUSTODIAN BANK

JPMorgan Chase

INSURANCE PORTFOLIO CONSULTANT

Conning Asset Management

GENERAL INVESTMENT CONSULTANTS

Callan Associates
Pension Consulting Alliance
Mercer Investment Consultants
R.V. Kuhns & Associates Inc.
Ennis Knupp & Associates

SPECIALTY INVESTMENT CONSULTANTS

Aon
Independent Fiduciary Services

LEGAL SERVICES

Cox, Castle, & Nicholson
Foster, Pepper & Shefelman
Goodwin Procter
K & L Gates
Orrick
Paul Hastings
Proskauer Rose
Song Mondress
Washington Attorney General

PRIVATE EQUITY CONSULTANT

Capital Dynamics, Inc.

REAL ESTATE CONSULTANT

Courtland Partners

Partners & Fund Managers

PRIVATE EQUITY PARTNERS

Accel Partners
Advent International
Affinity Equity Partners
Alta Communications
Ampersand Ventures
Apax Partners
Apex Investment Partners
Astorg Partners
Austin Ventures
Avenue Capital Group
Banc Funds
Battery Ventures
BC Partners
Blackstone Group
Boston Ventures
Bridgepoint Capital
Butler Capital Partners
Canaan Partners
Capital Resource Partners
Charterhouse Capital Partners
Cinven Ltd.
Clayton Dubilier & Rice
Code, Hennessy & Simmons
Collison, Howe and Lennox
Contrarian Capital Management
Cornerstone Equity Investors
Cypress Group
Doughty Hanson & Co.
Edgewater Funds
El Dorado Ventures
Elevation Partners
Endeavour Capital
Essex Woodlands
Evercore Capital Partners
Evergreen Pacific
First Reserve Corp.
Fisher Lynch Capital
Flagship Ventures
Fortress Investment Group
FountainVest
Francisco Partners
Frazier & Co.
Geocapital Partners
GGV Capital
Gilbert Global Equity Partners
Great Hill Partners
Green Mountain Partners
Gryphon Investors
GTCR Golder Rauner
H.I.G. Ventures
HarbourVest Partners
Healthcare Ventures
Hellman & Friedman
Heritage Partners
Indigo Capital Partners
Insight Venture Partners
Intersouth Partners
InterWest Partners
JLL Partners
JMI Equity
Kohlberg Kravis Roberts & Co.
KPS Investors
KSL Capital Partners
Leonard Green & Partners
M/C Venture Partners
Madison Dearborn Partners
MatlinPatterson Global Advisors
Menlo Ventures
Mobius Venture Capital
Morgan Stanley Venture Partners
New Enterprise Associates
Nordic Capital
Oak Investment Partners
Oaktree Capital Management
Olympus Partners
OVP Venture Partners
Palamon Capital Partners
Permira Advisors
Polaris Venture Partners
Prism Venture Partners
Providence Equity Partners
Rice, Sangalis, Toole & Wilson
Richland Venture Partners
Silver Lake Partners
Spark Management Partners
Spectrum Equity Investors
Sprout Group
Swander Pace Capital
TA Associates
Tailwind Capital Partners
Technology Crossover Ventures
Three Arch Partners
TPG Partners
Trident Capital Partners
Triton Partners
TSG Capital Group
U.S. Venture Partners
Union Square Ventures
Unitas Capital
VantagePoint Venture Partners
Värde Partners
Vestar Capital Partners
Vision Capital
Vivo Ventures
Warburg Pincus LLC
Welsh Carson Anderson & Stowe
Worldview Technology Partners

REAL ESTATE PARTNERS

Cherokee
Corporate Properties of the Americas
Emerging Markets Fund of Funds
Evergreen Investment Advisors
Fillmore Capital Partners
Global Co-Investment
Hometown America
Hudson Advisors
Morgan Stanley
Pacific Realty
PBSC Holdings
Principal Enterprise Capital
Prosperitas
Terramar Retail Centers
Warburg Pincus
Washington Holdings

TANGIBLES PARTNERS

Alinda
Campbell Group
Highstar
Sheridan

PUBLIC EQUITY FUND MANAGERS

Arrowstreet Capital, L.P.
Artio Global Investors
Barclays Global Investors, N.A.
Capital Guardian Trust Co.
Capital International, Inc.
Grantham, Mayo, Van Otterloo & Co. LLC
JPMorgan Asset Management, Inc.
Lazard Asset Management LLC
LSV Asset Management
Mondrian Investment Partners Ltd.
Pyramis Global Asset Trust Co.
State Street Global Advisors
William Blair & Co.

Enterprise Risk Management

FRAMEWORK

A cornerstone of a successful investment strategy is effective risk management. Enterprise Risk Management (ERM) is intended to manage risk in the broadest possible terms, encompassing all forms of activity across the entire agency. The WSIB's enterprise-wide approach to risk management includes involvement of the Board, executive management, audit, operational, legal, and investment staff.

MANAGING THE ASSETS

Risks arise from the deployment of the assets under our management in a fiercely competitive environment. Thus the WSIB needs to comply with the standards that a prudent investor would use to manage the assets of others, as well as with the laws of the state of Washington and Board investment policies. The WSIB has identified two primary risks for managing assets as fiduciary risk and market risk.

- Fiduciary Risk
- Market Risk

MANAGING THE ORGANIZATION

These risks stem from building and maintaining an organization that is best suited to managing this investment effort. Our organization must operate within a governmental framework while implementing investment management strategies that are more closely aligned with private investment entities. The WSIB has identified three risks under this theme which are strategic, governmental environment, and operational.

- Strategic Risk
- Governmental and Environmental Risk
- Operational Risk

SAFEGUARDING OUR REPUTATION

REPUTATION RISK

The WSIB must maintain its reputation in order to be a sought after partner in the market place, a trusted fiduciary by stakeholders and the legislature, and a valued resource for the citizens of Washington state. Failure in any of these prior five risk categories will damage the WSIB's reputation and its credibility, and make it difficult, if not impossible, to achieve the goals of its constituents. The agency has dedicated resources focused on coordinating and monitoring communications for the agency. The Board has also adopted rigorous codes of conduct and conflict of interest policies to ensure that its actions meet the most stringent standards and review. Ongoing education and information assist the Board members to make informed decisions. This enables the WSIB to promote and protect our reputation.

Corporate Governance

The WSIB's commitment to prudently manage and invest the retirement and public trust funds of its beneficiaries does not stop at the corporate boardroom door.

We believe our goal to maximize investment returns includes vigilant oversight of the way companies in which we invest are managed. This includes the manner in which a company's Chief Executive Officer (CEO) and board of directors carry out their corporate duties and responsibilities. The question needs to be asked: Are the CEO's performance goals aligned with maximizing shareholder value and are they practicing good corporate governance?

Increasingly, studies report that companies with good governance tend to produce higher returns on equity than poorly governed firms. A 2009 report by Glass, Lewis & Co. entitled "Pay Dirt," looked at the S&P 500 and Russell 3000 companies that had the best and the worst pay-for-performance rates for 2008.

The report states: "Scrutiny of the link between pay and performance has moved beyond just a seeming mantra into an analysis conducted in detail by more and more investors. In effect, shareholders are asking what they are getting for their money. In many cases, unfortunately, the answer is not much."

The report found that many companies continue to pay their top executives soaring amounts of compensation even when the global economy struggles to emerge from an historic financial crisis defined by government bailouts and enterprise-risking business practices.

That is why the WSIB believes that a fundamental part of managing its assets is voting its proxies.

Between July 1, 2008 and June 30, 2009, the WSIB voted just under 4,000 proxy ballots. Proxy votes were cast on nearly 27,000 individual proposals, dealing primarily with election of directors, ratification of auditor, compensation plans, and shareholder proposals.

Of the total director votes during that time, the WSIB withheld its vote from over 4,000 incumbent directors, primarily because of lack of board independence or unacceptable compensation practices. The WSIB's policy states that "Executive compensation should be linked directly with performance of the business the executive is charged with managing."

As a result, the WSIB:

- Voted against almost 35% of the compensation plans proposed.
- Voted against more than 700 compensation committee members for paying excessive compensation.
- Voted in favor of approximately 80 proposals that would give shareholders an advisory vote on executive compensation.

As one of the country's largest institutional investors, the WSIB believes the proxy voting ballot is one of the most effective ways to influence greater board transparency, integrity, and accountability.

JUNE 30, 2009

OBJECTS OF EXPENDITURE

APPROPRIATED	Budget	Expenditures	Budget Variance
Salaries	$ 7,822,579	$ 6,896,473	$ 926,106
Benefits	1,659,823	1,531,448	128,375
Personal Services	389,668	108,222	281,446
Goods & Services	2,965,588	2,990,892	(25,304)
Travel	393,300	470,912	(77,612)
Equipment	18,736	57,515	(38,779)
Debt Service	134,000	114,328	19,672
Subtotal Appropriated	$ 13,383,694	$ 12,169,790	$ 1,213,904

NON-APPROPRIATED	Budget	Expenditures	Budget Variance
U.S. Equity	$ 9,361,450	$ 3,435,237	$ 5,926,213
International Equity	57,061,480	41,314,931	15,746,549
Private Equity	183,143,600	171,556,731	11,586,869
Real Estate	40,168,990	36,201,240	3,967,750
Tangible Assets	12,200,000	10,751,196	1,448,804
Innovative Portfolio	12,200,000	3,686,306	8,513,694
General Consultants	2,457,940	710,663	1,747,277
Advisory Services Consultant	4,000,000	-	4,000,000
Legal Fees	1,239,550	926,326	313,224
Custodian Bank Fees	2,295,120	766,731	1,528,389
Securities Lending	9,206,460	16,686,709	(7,480,249)
Cash Management	1,612,850	2,186,521	(573,671)
Cash Overlay	500,000	322,071	177,929
Directed Brokerage Fees	264,000	52,307	211,693
Investment Acctg Data Systems	872,540	817,802	54,738
Telecommunications	14,400	10,726	3,674
Professional Memberships	80,800	68,608	12,192
Research Services	2,154,500	1,553,875	600,625
Subtotal Non Appropriated	338,833,680	291,047,980	47,785,700
TOTAL	$ 352,217,374	$ 303,217,770	$ 48,999,604

Investments

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Plans Under Management

RETIREMENT PLANS

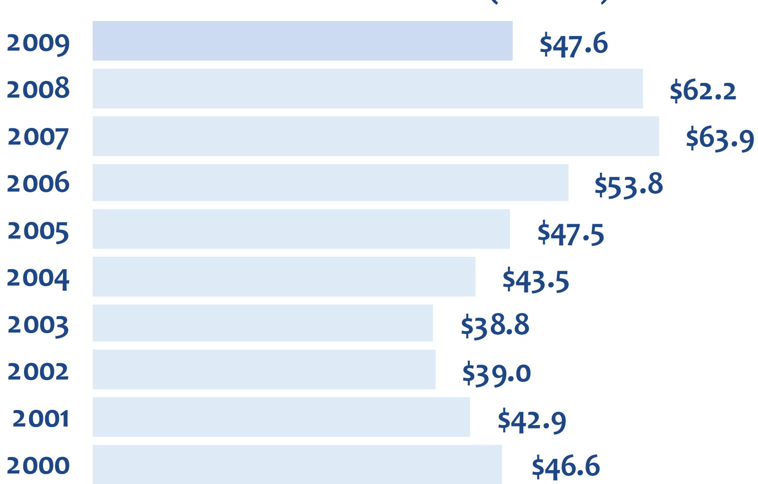
The WSIB manages investments for several separate pension plans including: Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), School Employees' Retirement System (SERS), Law Enforcement Officers' and Firefighters' (LEOFF), Judicial Retirement Account (JRA), Washington State Patrol (WSP), Public Service Employees' Retirement System (PSERS), and the Volunteer Firefighters (VFF). The active members by system increased from 294,201 one year ago to 302,089. The total of retired members by system is 171,720.

RETIREMENT FUND PERFORMANCE

To more efficiently manage investments, reduce administrative costs, and minimize investment fees, the defined benefit retirement fund assets are pooled into the Commingled Trust Fund (CTF). Over the past 10 years, the fund has grown from $37.3 billion to $47.6 billion including employer and employee contributions, plus net investment returns, less benefit payments and fund transfers (this does not include Plan 3 self-directed defined contribution funds).

The WSIB measures fund performance by comparing the performance of investment returns of each asset class in the CTF to appropriate benchmarks. Although quarterly and yearly returns change, our long-term realizations should meet or exceed the 8.0% actuarially assumed rate of return.

CTF Historical Market Values (Billions)



It is important to remember that individual asset classes differ in their behavior and volatility from one year to the next. The fair market 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.

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 account for nearly 92% of the variation between returns on different portfolios and it is 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 CTF is invested in six basic asset classes: global equity, fixed income, private equity, real estate, tangible assets, and cash. The Board establishes long-term policy targets for each asset class and also sets acceptable ranges within which those targets can vary. The WSIB formally reviews its strategic asset allocations at least every four years. As of June 30, 2009, the Board was in the process of reviewing the asset allocation for the CTF.

FIXED INCOME PROGRAM

The fixed income program is actively managed by WSIB staff against a performance benchmark of the Barclays Universal Index. The main sectors in the portfolio are U.S. treasury securities, U.S. treasury inflation protection securities (TIPS), credit bonds, mortgage backed securities (MBS), collateralized mortgage obligations (CMO) and commercial, mortgage-backed securities (CMBS).

Management of the portfolio was dominated by three themes in the last 12 months: raising cash in order to fund other asset classes; the freezing up of the global financial system; and the global economy moving into a severe recession. During those 12 months, $3.4 billion in cash was moved out of the portfolio. In that same time period, the yield on the 10-year treasury went from 4.0% to 3.5%, hitting a high of 4.1% in July 2008 and a low of 2.1% in December 2008.

HIGHLIGHTS

- The portfolio outperformed the Barclays Universal Index for the year returning 6.1% vs. 4.9% for the index.
- Treasuries, agencies, mortgages, and ABS were underweighted for the portfolio, while TIPS, CMO, and credits were overweighted.
- Transactions totaled $3.3 billion in sales and $1.1 billion in purchases.

TANGIBLES

The Tangible Asset portfolio primarily targets investments in five sectors: agriculture, commodities, infrastructure, natural resource rights (such as mining), and timber. Each of these sectors has different return attributes and, thus, provides diversification benefits to the overall CTF portfolio.

Like the Real Estate Program, the WSIB's tangible asset program focuses primarily on creating high-quality, long-term, stable income streams for the CTF. The majority of these externally-managed partnerships focus on income generation as their primary goal which, when combined with the potential upside from appreciation, generate returns that are expected to fall between performance expectations for fixed income and equities. In general, appreciation is targeted to be approximately commensurate with inflation.

As with real estate, some of the WSIB's tangible asset partnerships do not involve co-investment with other financial investors. The majority of our partners will invest only in the private markets, so they are less vulnerable to the potential volatility of the public markets. Over time, we expect to create a well-diversified, global tangible asset portfolio with a variety of partners spread among the five target sectors (noted above) each with their own investment style and geographic diversification.

HIGHLIGHTS

- Since this is still a new asset class with only a one-year history, there are no meaningful highlights for the portfolio to date.

REAL ESTATE PROGRAM

The WSIB's real estate program focuses primarily on creating high-quality, long-term, stable income streams for the CTF. Our partnership investments target risk-adjusted returns consistent with our long-term expectations for the asset class. The majority of these externally managed partnerships invest in properties leased to third parties. The steady income from lease payments, combined with the potential upside from appreciation, generate returns that are expected to fall between performance expectations for fixed income and equities.

Many of the WSIB's partnerships do not involve co-investment with other financial investors. This provides us with superior governance provisions related to acquisition, disposition, and annual business planning processes. The majority of our partners own real estate assets as private market investments, so they are better able to withstand the potential volatility of the public markets. Capital is widely diversified among a variety of partners, each with their own investment style, and partnership 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 in what is likely to continue to be a very challenging environment.

The exceptional disruption of global credit markets in the fourth quarter of 2008 dramatically impacted the value and performance of real estate investments for investors across the globe. The sharp appreciation in commercial property values in recent years violently reversed course and most property types have seen declines of more than 30% in value. While the WSIB fared better than many other investors, some WSIB holdings were strongly impacted. The majority of the WSIB's real estate investments is performing relatively well given difficult market conditions and continues to produce attractive income yields—the primary goal of the program. The long-term returns for the real estate portfolio are still attractive. We expect the market's negative trend to continue for at least another year and probably longer. Because the WSIB is a well-capitalized, long-term investor, we will be able to endure the current challenges. We hope to benefit from depressed pricing in many markets to acquire high-quality property at attractive valuations.

HIGHLIGHTS

- For the one-year period ending June 30, 2009, the portfolio underperformed the National Council of Real Estate Investment Fiduciaries (NCREIF) Index, earning -25.7% vs. -13.7% for the index.
- The strongest driver of the good long-term returns was the WSIB's investments in real estate operating companies (REOCs).
- The strongest drivers of short-term declines in the portfolio's value were the impact of the market on highly-leveraged fund holdings and the general unavailability of refinancing for expiring loans. The latter has the effect of depressing prices in the marketplace, since some borrowers are forced to sell under pressure when they cannot refinance existing loans.
- The WSIB continues to overweight growth markets in the U.S., especially in the southern and western regions, due to the potential long-term demographic and economic growth of these areas. Emphasis also continues to be placed on the most important and attractive non-domestic markets.

PUBLIC EQUITY PROGRAM

In October 2007, the public equity program adopted a global benchmark, the Dow Jones Global Total Markets Index, reflecting the globalization of capital markets. The CTF also reduced its asset allocation to public equity from 46% to 37% to facilitate increased allocations to alternative investments (private equity, real estate, and tangible assets). Even though the fund moved to a global benchmark, the program was not substantially restructured and, thus, the public equity portfolio remains a combination of separate U.S. and international components.

Because U.S. equity markets are generally efficient, most of the WSIB's investments in this segment are in a low-cost, broad-based passive index fund. The program started the year with 75% of U.S. equity invested passively and the remaining 25% in enhanced index products. By fiscal year end, over 82% of U.S. equity was in passive investments (or in the process of being transitioned to passive) and less than 18% remained in enhanced indexing. In keeping with our belief that international equity markets are less efficient while acknowledging that international efficiency is increasing, the WSIB's developed markets international equity program also increased its use of passive strategies from 20% to over 27% but kept the majority of the program in active mandates. The entire emerging markets equity program is actively managed.

This past fiscal year witnessed unprecedented volatility in equity markets around the globe. From September 2008 to early March 2009, equity markets declined faster and further than at any time in the past 75 years, followed by an upturn starting in early March 2009 that saw the fastest 8-week rise in history. Investors like the WSIB and its managers who focus on patient, long-term investing were swamped by the volatile irrationality sweeping the markets, and the public equity program underperformed as a result. However, the WSIB continues to believe that it is vital to maintain its commitment to the long-term focus required to stick with valid investment strategies through downturns and market volatility. This long-term focus is balanced with constant attention to improving risk control and researching new options for the portfolio.

HIGHLIGHTS

- The total Global Equity portfolio return underperformed the Dow Jones Global Total Index benchmark returning -29.9% compared to the index which was -28.5% for the year.
- Due to underperformance by the enhanced index managers, the U.S. equity portfolio underperformed its benchmark the Dow Jones Total Stock Market Index across all time periods.
- International equity closely matched its custom benchmark (difference of 1 basis point).

PRIVATE EQUITY PROGRAM

As of June 30, 2009, the private equity portfolio was valued at just over $10.4 billion, or approximately 21.9% of the CTF, compared with $13.8 billion and 22.3% at the previous fiscal year-end. The decline in the portfolio's value reflects the mark-to-market of underlying portfolio companies to reflect declining earnings and multiples in a recessionary environment.

Private equity fund-raising, investment pace, and realization activity all declined significantly from the prior year. The slow pace of investing was due to several factors, including lack of available debt financing, lack of visibility into the depth and duration of the recession, and unrealistic seller expectations. Exits from existing portfolio company holdings proved very difficult, given significant challenges in both capital and credit markets. Concerns about liquidity and capacity dampened investor demand for new private equity commitments, making the fund-raising environment the most difficult in many years.

The WSIB continues its focus on building a well-diversified portfolio of high quality partnerships. Historically, economic downturns have been followed by attractive periods for private equity investing, as acquisition prices decline and company earnings momentum returns.

HIGHLIGHTS

- $2.2 billion in commitments to funds were closed during FY 2009 compared to $4.1 billion in FY 2008.
- $1.9 billion of committed capital was drawn for investment during the year compared to $4.5 billion in the prior year.
- $0.7 billion in distributions were returned to the WSIB compared with $2.7 billion in FY 2008.

INNOVATION PORTFOLIO

The primary investment strategy of our new innovation portfolio gives staff the ability to make investments that fall outside the traditional asset classes currently used by the Board. Secondly, this portfolio provides the Board with comfort and demonstrated success before committing large dollar amounts to different investment strategies.

HIGHLIGHTS

- One new investment theme, Mezzanine Debt, was added but not funded in fiscal year 2009. The only strategy currently employed in the innovation portfolio is global equities, which was funded in December 2008.

DEFINED CONTRIBUTION RETIREMENT PLANS

PERS 3 - $1.2 BILLION
SERS 3 - $909.3 MILLION
TRS 3 - $3.4 BILLION

As trustee of the Plan 3 retirement systems for PERS, SERS, and TRS, the WSIB is responsible for the investment of plan assets of the self-directed investment options. The administrative, accounting, and record-keeping work for these plans is provided by the Department of Retirement Systems (DRS).

DEFERRED COMPENSATION PROGRAM (DCP) AND JUDICIAL RETIREMENT ACCOUNT

DEFERRED COMPENSATION PROGRAM
$2.2 BILLION

The WSIB is responsible for investing DCP funds and providing investment options for program participants. DRS is responsible for DCP administration, accounting, and record-keeping.

JUDICIAL RETIREMENT ACCOUNT
$10.7 MILLION

The JRA is a defined contribution supplemental retirement fund for state judges. Investments are self-directed by participants in the JRA program utilizing the DCP investment options. The Office of the Administrator for the Courts administers the fund, while accounting and record-keeping is done by DRS.

DAILY-VALUED FUNDS FOR SELF-DIRECTED INVESTMENT PROGRAMS

BOND MARKET FUND
$471.3 MILLION

The goal of this daily-valued fund is to provide participants of the self-directed defined contribution retirement plans (TRS/SERS/PERS Plan 3's, DCP, and JRA) 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 Lehman Intermediate Credit Index.

SAVINGS POOL
$959.8 MILLION

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.

LABOR AND INDUSTRIES' FUNDS
$11.0 BILLION

The WSIB manages Industrial Insurance funds on behalf of the Department of Labor and Industries (L&I). 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
$801.0 MILLION

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. Fund proceeds are invested in fixed income and short-term holdings, with the exception of the Common School Fund, which is also invested in the U.S. Equity Market Index Fund.

OTHER FUNDS
$116.5 MILLION

These funds were created by the Legislature to fund various mandates and can be liquidated as needed. These funds are invested by the WSIB until they are completely liquidated or closed by legislation.

GUARANTEED EDUCATION TUITION FUND
$1.1 BILLION

The Guaranteed Education Tuition (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 Committee on Advanced Tuition Payment. The WSIB serves as trustee for the funds and invests them in a mix of short-term holdings, TIPS, U.S. Equity, and International Equity.

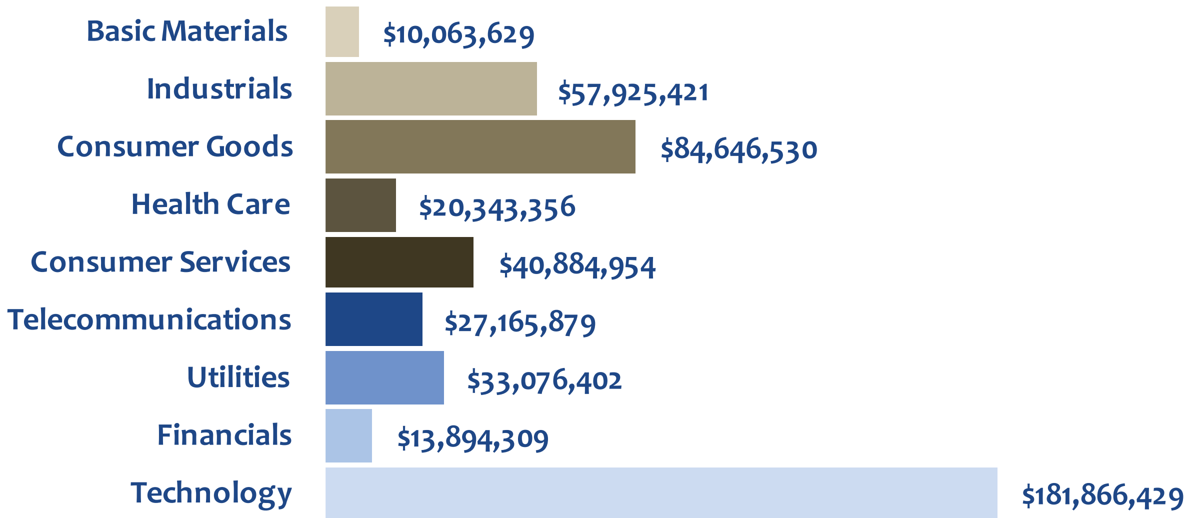
DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST FUND
$18.4 MILLION

The Developmental Disabilities Endowment Trust Fund (DDEF) supports individuals with developmental disabilities through private contributions and public appropriations. The WSIB invests the fund in a mix of short-term holdings, TIPS, fixed income, and U.S. Equity.

Investing in Washington

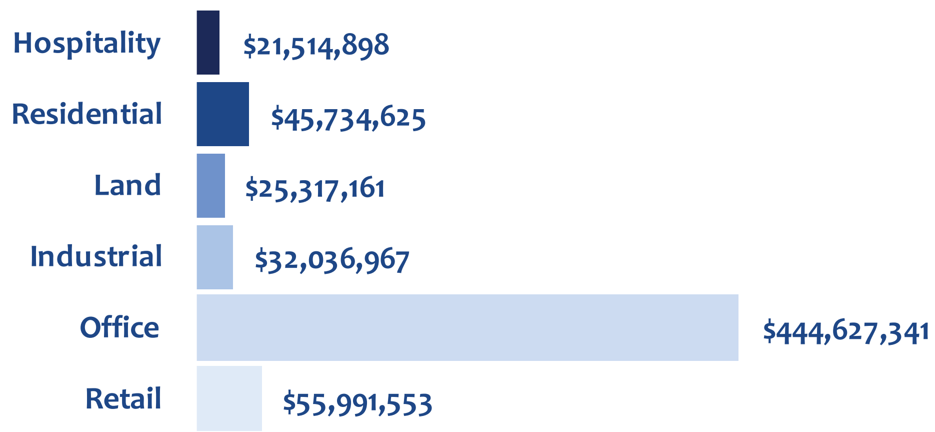
The WSIB seeks the best investment opportunities no matter where they might be located. Washington is home to many successful companies. In-state investments can be found in all of the WSIB's portfolios. For FY 2009, the fair market value for public equity was $264.5 million, fixed income $113.3 million, private equity $92.7 million, and real estate was at $625.2 million. The combined total for 2009 in-state investments was $1.1 billion.

INDUSTRY BREAKDOWN - PUBLIC EQUITY, FIXED INCOME, AND PRIVATE EQUITY



PROPERTY TYPE BREAKDOWN - REAL ESTATE AND TANGIBLE ASSETS

The total capital for real estate that the WSIB has invested in Washington properties is $655.1 million. For tangible assets it is $1.2 million in a company owning infrastructure.



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Overview Of Financial Statements

This discussion and analysis serves as an introduction to the WSIB's basic financial statements and notes to the financial statements. The statements included are for the Retirement funds, L&I Funds, Permanent Trust Funds, Other Funds, GET, and DDEF. The financial statements are reported separately due to the unique goals and objectives for each set of funds.

BASIC FINANCIAL STATEMENTS

The basic financial statements presented include the statement of net assets, which reports the assets by general asset category, the statement of changes in net assets, which reports the contributions to, withdrawals from and investment earnings for the fiscal year ending June 30, 2009.

This year, the 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 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:

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF THE WASHINGTON STATE INVESTMENT BOARD

OLYMPIA, WASHINGTON

We have audited the accompanying statement of net assets for the Retirement Funds (Commingled Trust Fund and Plan-Specific Investments) of the State of Washington as managed by the Washington State Investment Board ("the Retirement Funds") as of June 30, 2009, and the related statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Washington State Investment Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to in the first paragraph present only the investment activity of the Retirement Funds as managed by the Washington State Investment Board. The financial statements do not purport to, and do not, present the financial activity of the Washington State Department of Retirement Systems. Further, they do not purport to, and do not, present the financial activity of the Washington State Investment Board or of the State of Washington.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the net assets of the Retirement Funds as of June 30, 2009, and the changes in net assets for the year then ended in conformity with accounting principles generally accepted in the United States.

As explained in Note 1, the financial statements include investments valued at $18,798,267,278 (40% of net assets), 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, in the case of investments in partnerships, the general partners.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Retirement Funds. Management's Discussion and Analysis preceding the financial statements is presented for purposes of additional analysis and is not a required part of the financial statements referred to in the first paragraph. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. The introduction section of the annual report has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

/S/ PETERSON SULLIVAN LLP

October 28, 2009

Management Discussion & Analysis

Management's Discussion and Analysis for the Retirement Funds of the State of Washington, managed by the WSIB, is presented as an introduction to the financial statements and 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 State of Washington departments. This section of this report represents only the Retirement Funds portion. The Retirement Funds are the largest investor in funds managed by the WSIB.

Following this section of the report are the financial statements and footnotes. The Statement of Net Assets provides information on the types of investments and the liabilities of the Retirement Funds. This information is summarized in Table 1. Table 1 also compares the asset, liability, and net asset balances at June 30, 2009, with those at June 30, 2008. The Statement of Changes in Net Assets provides information on investment performance and other increases and decreases in the net assets of the Retirement Funds for the year ended June 30, 2009. This information is summarized in Table 2. Table 2 also compares the financial activities of the Retirement Funds for the year ended June 30, 2009, with those of the year ended June 30, 2008. 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 Retirement Funds.

As shown in Table 1, the net assets of the Retirement Funds decreased by approximately $(14.8) billion during the fiscal year ended June 30, 2009. Realized and unrealized losses within the portfolio decreased net assets by $(14.9) billion. Distributions to the retirement system decreased net assets by $(0.6) billion. Net investment income increased net assets by $0.7 billion. Realized and unrealized losses were mainly incurred in the equity portfolios, both public and private, due entirely to the turbulent market environment that began in 2008. Total return of the Retirement Funds portfolio for the year ended June 30, 2009, was (22.8) percent resulting in a negative change in net assets for the year.

The following summarizes changes within each grouping listed in table 1:

- Liquid assets increased by $0.2 billion. Income reinvested which increased this asset class totaled $0.5 billion. Distributions to the retirement system decreased liquid assets by $0.3 billion. Due to the current market environment, the WSIB is maintaining higher than normal cash balances to meet liquidity needs and to take advantage of strategic market moves as they occur.
- Fixed income decreased by $(2.7) billion. Transfers out to rebalance the portfolio and provide needed liquidity decreased this asset class by $(2.6) billion. Realized and unrealized losses totaled $(0.1) billion which occurred mainly in the Treasury Inflation Protection Securities (TIPS) portfolio. The value of TIPS is directly correlated to changes in the Consumer Price Index (CPI). During the fiscal year, the CPI decreased which resulted in a decrease in the TIPS portfolio.
- Equities decreased by $(8.2) billion. Transfers out of this asset class to rebalance the portfolio and provide needed liquidity totaled $(0.7) billion. Realized and unrealized losses in the equity portfolio decreased the balance by $(7.5) billion due to the market volatility experienced during the fiscal year.
- Alternative investments decreased by $(4.2) billion. General partners called an additional $3.0 billion of capital which increased this asset class. Realized and unrealized gains and losses within this portfolio decreased the asset balances by $(7.2) billion. Turmoil in the public equity markets also negatively impacted the private equity portfolio.
- Collateral held and obligations under securities lending agreements decreased by $(1.0) billion. During the current fiscal year the Retirement Funds ceased lending corporate bonds due to an increase in failed sale transactions. The market environment was making it difficult to recall these securities on loan in a timely fashion to settle the trades. The Retirement Funds continue to lend public equities and U.S. Government securities.

Table 1 - Summarized Net Assets	2009	2008	Dollar Change	Percent Change
Liquid Assets	$1,645,037,085	$1,477,221,112	$167,815,973	11.4%
Fixed Income Securites	10,889,254,491	13,633,886,334	(2,744,631,843)	-20.1%
Equities	16,160,833,082	24,373,648,646	(8,212,815,564)	-33.7%
Alternative Investments	18,798,267,278	22,973,523,651	(4,175,256,373)	-18.2%
Total Investments	**47,493,391,936**	**62,458,279,743**	**(14,964,887,807)**	**-24.0%**
Collateral Held Under Securities Lending Agreements	2,913,892,402	3,963,758,057	(1,049,865,655)	-26.5%
Other Receivables	582,669,089	375,777,018	206,892,071	55.1%
Total Assets	**50,989,953,427**	**66,797,814,818**	**(15,807,861,391)**	**-23.7%**
Obligations Under Securities Lending Agreements	2,913,892,402	3,963,758,057	(1,049,865,655)	-26.5%
Other Payables	500,067,996	483,281,627	16,786,369	3.5%
Total Liabilities	**3,413,960,398**	**4,447,039,684**	**(1,033,079,286)**	**-23.2%**
Net Assets	**$47,575,993,029**	**$62,350,775,134**	**$(14,774,782,105)**	**-23.7%**

As shown in Table 2, net investment loss for the year increased by $13.4 billion. Investment earnings decreased by $(1.1) billion due to a decrease in the amount of fixed income securities held within the portfolio and the decline of interest rates during the fiscal year. Realized and unrealized losses increased by $12.4 billion due to the current market volatility in the public and private equity portfolios. Investment expenses decreased by $(0.1) billion due to declining assets under management. In addition, the Retirement Funds no longer pay directly for custodial services which were included in management fees in the prior year's financials. Distributions to the retirement system decreased by $0.4 billion due to an increase in employer and employee contribution rates during the current fiscal year.

The fair value of the Retirement Funds' assets is directly impacted by the returns of the various capital markets within which the WSIB invests. However, one of the benefits of the 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 makes the asset allocation decisions for the Retirement Funds based on recommendations from its staff and other investment experts. Retirement Fund assets are rebalanced by WSIB across asset classes, as appropriate, when fair values of assets fall outside policy ranges.

Table 2 - Summarized Changes in Net Assets	2009	2008	Dollar Change
Net Assets - Beginning	**$62,350,775,134**	**$64,077,004,247**	**$(1,726,229,113)**
Net Investment Income			
Investment Income	1,062,041,041	2,220,969,886	(1,158,928,845)
Net Capital Gain (Loss)	(2,888,701,029)	4,373,144,832	(7,261,845,861)
Unrealized Losses	(12,012,084,165)	(6,883,684,768)	(5,128,399,397)
Investment Expenses	(315,938,638)	(457,010,775)	141,072,137
Net Investment Loss	**(14,154,682,791)**	**(746,580,825)**	**(13,408,101,966)**
Net Withdrawal by Retirement Plans	(620,099,314)	(979,648,288)	359,548,974
Net Assets - Ending	**$47,575,993,029**	**$62,350,775,134**	**$(14,774,782,105)**

RETIREMENT FUNDS STATEMENT OF NET ASSETS - JUNE 30, 2009
SEE NOTES TO FINANCIAL STATEMENTS

	Commingled Trust Fund	Plan-Specific Investments	Total	Percent of Plan Assets
ASSETS				
Investments:				
LIQUIDITY:				
Money Market Funds	$ 1,365,269,813	$ 189,487,227	$ 1,554,757,040	
Currency	90,280,045	-	90,280,045	
Total Liquidity	1,455,549,858	189,487,227	1,645,037,085	3.5%
FIXED INCOME SECURITIES (U.S. DOLLAR DENOMINATED)				
Asset Backed Securities	69,643,391	-	69,643,391	
Residential Mortgage Backed Securities	3,325,461,787	-	3,325,461,787	
Commercial Mortgage Backed Securities	476,828,551	-	476,828,551	
Corporate Bonds - Domestic	1,752,535,828	-	1,752,535,828	
Corporate Bonds - Foreign	3,592,295,595	-	3,592,295,595	
Treasury Inflation Protected Securities (TIPS)	1,368,629,059	-	1,368,629,059	
Total Fixed Income Securities (U.S. Dollar Denominated)	10,585,394,211	-	10,585,394,211	22.3%
FIXED INCOME SECURITIES (NON U.S. DOLLAR DENOMINATED)				
Corporate Bonds - Foreign	303,860,280	-	303,860,280	0.6%
CORPORATE STOCK (U.S. DOLLAR DENOMINATED)				
Corporate Stock - Domestic	339,098,769	-	339,098,769	
Corporate Stock - Foreign	128,316,674	-	128,316,674	
Total Corporate Stock (U.S. Dollar Denominated)	467,415,443	-	467,415,443	1.0%
CORPORATE STOCK (NON US DOLLAR DENOMINATED)				
Corporate Stock - Foreign	5,806,059,279	-	5,806,059,279	12.2%
COMMINGLED EQUITY INDEX FUNDS				
Commingled Index Funds - Domestic	6,576,375,686	-	6,576,375,686	
Commingled Index Funds - Foreign	3,310,982,674	-	3,310,982,674	
Total Commingled Equity Index Funds	9,887,358,360	-	9,887,358,360	20.8%
ALTERNATIVE INVESTMENTS:				
Private Equity	10,432,181,822	-	10,432,181,822	
Real Estate	7,837,565,219	-	7,837,565,219	
Tangible Assets (Infrastructure, Natural Resources)	528,520,237	-	528,520,237	
Total Alternative Investments	18,798,267,278	-	18,798,267,278	39.6%
Total Investments	47,303,904,709	189,487,227	47,493,391,936	100.0%
Investment Earnings Receivable	133,983,101	64,437	134,047,538	
Due From Other Agencies	-	8,505	8,505	
Receivables for Investments Sold	448,613,046	-	448,613,046	
Collateral Held Under Securities Lending Agreements	2,913,892,402	-	2,913,892,402	
Total Assets	50,800,393,258	189,560,169	50,989,953,427	
LIABILITIES				
Obligations Under Securities Lending Agreements	2,913,892,402	-	2,913,892,402	
Investment Management Fees Payable	7,909,083	-	7,909,083	
Payable for Investments Purchased	492,158,913	-	492,158,913	
Total Liabilities	3,413,960,398	-	3,413,960,398	
NET ASSETS	$ 47,386,432,860	$ 189,560,169	$ 47,575,993,029	

RETIREMENT FUNDS STATEMENT OF CHANGES IN NET ASSETS - YEAR ENDED JUNE 30, 2009

SEE NOTES TO FINANCIAL STATEMENTS

	Commingled Trust Fund	Plan-Specific Investments	Total
Net Investment Income			
Investment Income:			
Interest, Dividends, and Other Investment Income	$ 980,703,694	$ 4,052,896	$ 984,756,590
Securities Lending Income	77,284,451	-	77,284,451
Realized Capital Gains	2,214,468,670	-	2,214,468,670
Realized Capital Losses	(5,103,169,699)	-	(5,103,169,699)
Unrealized Losses	(12,012,084,165)	-	(12,012,084,165)
Less:			
Investment Expenses	(263,521,636)	(218,505)	(263,740,141)
Securities Lending Broker Rebates Paid and Bank Fees	(42,972,558)	-	(42,972,558)
WSIB Operating Expenses	(9,225,939)	-	(9,225,939)
Net Investment Income (Loss)	(14,158,517,182)	3,834,391	(14,154,682,791)
Net Withdrawal by Retirement Plans	-	(620,099,314)	(620,099,314)
Investments in Commingled Funds	1,171,725,356	(1,171,725,356)	-
Withdrawals from Commingled Funds	(1,801,024,669)	1,801,024,669	-
Increase (Decrease) in Net Assets	(14,787,816,495)	13,034,390	(14,774,782,105)
NET ASSETS, JUNE 30, 2008	62,174,249,355	176,525,779	62,350,775,134
NET ASSETS, JUNE 30, 2009	$ 47,386,432,860	$ 189,560,169	$ 47,575,993,029

Notes to Financial Statements

NOTE 1. DESCRIPTION OF FUNDS AND SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF FUNDS

The Retirement Funds consist of retirement contributions from employer and employee participants and related earnings on those contributions, in the Washington State Retirement System. The Retirement System is administered by the Department of Retirement Systems (DRS). The financial statements present only the activity of the Retirement Funds as managed by the WSIB. The WSIB has exclusive control of the investment of all money invested in the Retirement Funds. The financial statements do not present the financial position or the results of operations of WSIB or DRS.

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.

VALUATION OF INVESTMENTS

Investments are reported at fair value. Unrealized gains and losses are included as investment income in the statement of changes in net assets.

The net assets of the Retirement Funds are valued on a monthly basis using the following sources:

Publicly Traded Securities (Corporate stock, Commingled Funds, and Fixed Income): Fair values are based on published market prices, quotations from national security exchanges, and security pricing services as of each month end closing of the New York Stock Exchange.

Limited Partnerships: 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 management based on the individual investment's capital account balance, reported at fair value by the general partner, at the closest available reporting period, adjusted for subsequent contributions, distributions and management fees. The June 30, 2009, values reported in the accompanying financial statements are the capital account balances at March 31, 2009, adjusted for subsequent cash flows through June 30, 2009.

The limited partnerships' annual financial statements are audited by independent auditors. These investments are valued at $18.8 billion (39.6 percent of total net assets) as of June 30, 2009. Because of the inherent uncertainties in estimating fair values, it is at least reasonable possible that the estimates will change in the near-term.

Private Equity Limited Partnerships: 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 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 a portfolio companies' projections. The market approach involves valuing a company at a multiple of a specified financial measure (generally EBITDA) based on multiples at which comparable companies trade.

Real Estate Limited Partnerships: Real estate partnerships provide quarterly valuations based on the most recent capital account balance to WSIB management. Individual properties are valued by the partnerships at least annually, and are adjusted as frequently as quarterly if material market or operational changes have occurred. Properties are generally externally valued every one to five years, depending upon the partnership. 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.

REVENUE RECOGNITION

Interest and dividend income is 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. Foreign exchange contracts are marked-to-market at the prevailing market exchange rates at month-end with changes in fair value recognized as part of investment income.

SECURITIES LENDING

The Retirement Funds record collateral received under securities lending agreements where the Retirement Funds have the ability to spend, pledge, or sell the collateral without borrower default. Liabilities resulting from these transactions are also reported. Additionally, costs associated with securities transactions, broker commissions paid, and lending agent management fees are reported as investment expenses in the accompanying financial statements. The statement of net assets does not include detailed holdings of securities lending collateral by investment classification.

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. THE COMMINGLED TRUST FUND (CTF) AND PLAN SPECIFIC INVESTMENTS

The CTF is a diversified pool of investments which is used as an investment vehicle for 14 separate retirement plans, excluding the Judicial retirement plan which is not part of the CTF. These plans hold "units" in the CTF, which represent a percentage ownership in the pool of investments. Plans are allowed to purchase or sell units in the CTF, based on the fair value of the underlying assets, on the first business day of each month.

In addition to unit ownership in the CTF, each retirement plan holds its own short-term investments. These short-term investments are referred to as “plan-specific investments” in the accompanying financial statements and are used to manage the cash needs of each retirement plan.

The CTF consists of the PERS 1 and 2/3; TRS Plans 1 and 2/3; SERS Plans 2/3; LEOFF Plans 1 and 2; WSP Retirement Systems Plan 1 and 2; VFF, and PSERS Plan 2. The CTF includes only the defined benefit portion of PERS Plan 3, SERS Plan 3 and TRS Plan 3, which are hybrid defined benefit/defined contribution plans. The participants also have the option to invest their defined contributions in the CTF or other external options not managed by the WSIB.

NOTE 3. BREAKDOWN OF PLAN ASSETS

The following schedule presents the net assets broken down by ownership by the various pension plans. “DC” means “defined contribution” and “DB” means “defined benefit,” two different types of retirement plans.

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 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 below. The WSIB operating expenses are charged to the funds based upon actual costs incurred to manage the investments. WSIB operating expenses are allocated to the funds under management based on relative market values, in accordance with State statutes.

SCHEDULE OF PARTICIPATION

RETIREMENT PLANS:	Commingled Trust Fund	Plan-Specific Investments	Total Plan Assets	Percent of Plan Assets
PERS 1	$ 7,548,516,021	$ 14,839,630	$ 7,563,355,651	15.9%
PERS 2/3 (DC and DB Plans)	14,747,484,435	57,986,578	14,805,471,013	31.1%
TEACHERS 1	6,253,041,829	57,990,678	6,311,032,507	13.3%
TEACHERS 2/3 (DC and DB Plans)	6,784,152,979	22,825,412	6,806,978,391	14.3%
VOLUNTEER FIREFIGHTERS	93,537,092	815	93,537,907	0.2%
WSP 1/2	696,627,940	802,139	697,430,079	1.5%
LEOFF 1	4,351,288,739	2,914,266	4,354,203,005	9.2%
LEOFF 2	4,274,140,690	19,406,876	4,293,547,566	9.0%
SCHOOL EMPLOYEES 2/3 (DC and DB Plans)	2,586,766,478	8,631,672	2,595,398,150	5.4%
PUBLIC SAFETY EMPLOYEES 2	50,876,657	2,701,510	53,578,167	0.1%
JUDICIAL		1,460,593	1,460,593	0.0%
Total Net Assets at June 30, 2009	**$ 47,386,432,860**	**$ 189,560,169**	**$ 47,575,993,029**	**100.0%**

SCHEDULE OF INVESTMENT FEES AND EXPENSES

	Fees	Assets Under Management
EQUITY SECURITIES:		
U.S. Active Equity Manager	$ 827,400	$ 1,212,865,895
International Active Equity Managers	34,138,679	6,519,591,124
International Passive Equity Managers	145,232	2,684,099,955
U.S. Passive Equity Manager	2,539,982	5,363,946,732
Innovation Portfolio	2,996,968	380,329,377
ALTERNATIVE INVESTMENTS:		
Private Equity	171,595,725	10,432,181,822
Real Estate	36,268,740	7,837,565,219
Tangible Assets	534,000	528,520,237
CASH MANAGEMENT	703,272	1,645,037,085
OTHER FEES:		
Consultants and Advisors	11,127,936	-
Accounting	644,604	-
Legal Fees	721,068	-
Research Services	1,375,787	-
Miscellaneous Fees	120,748	-
Total Investment Expenses	$ 263,740,141	$ 36,604,137,446

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, 2009, the Retirement Funds had the following unfunded investment commitments:

Private Equity	$8,940,370,895
Real Estate	$7,963,540,278
Tangible Assets	$516,037,775

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 the 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 DRS.

NOTE 7. DEPOSIT AND INVESTMENT RISK DISCLOSURES

CUSTODIAL CREDIT RISK – DEPOSITS

Custodial credit risk for deposits is the risk that in the event of a bank failure the Retirement Funds' deposits may not be returned to it. The Retirement Funds do not have a deposit policy for custodial credit risk. As of June 30, 2009 there were no deposits with the custodial bank.

CUSTODIAL CREDIT RISK – INVESTMENTS

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the Retirement Funds will not be able to recover the value of investments that are in the possession of an outside party. The Retirement Funds do not have an investment policy specifically for custodial credit risk. The securities lending collateral balances are from securities required to be listed under GASB Statement 3 Category 3 – Uninsured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the Funds' name. (This includes the amount of any repurchase agreement that exceeds the fair value of the underlying securities).

The WSIB has been authorized by statute as having the investment management responsibility for Retirement Funds. The WSIB is authorized to invest as provided by statute (Chapter 43.33A RCW) and WSIB policy. The WSIB is authorized and invests 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 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 securities including futures, options, options on futures, forward contracts, and swap transactions. There have been no violations of these investment restrictions during fiscal year 2009.

INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Effective duration is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Effective duration uses the present value of cash flows, weighted for those flows as a percentage of the investment's full price. Increases in prevailing interest rates generally translate into decreases in fair values of those investments. The Retirement Funds' fixed income investments are to be actively managed to exceed the return of the Barclays Capital Universal Index, with volatility as measured by duration to be similar to or less than the index. As of June 30, 2009, the Retirement Funds' durations of the various fixed income classes were within the duration targets of this index.

Schedule 1 provides information about the interest rate risks associated with the CTF investments as of June 30, 2009. The schedule displays various asset classes held by maturity in years, effective durations, and credit ratings. Residential mortgage backed, commercial mortgage backed, and asset backed 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. All other securities on this schedule are reported using the stated maturity date.

CREDIT RISK

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Retirement Funds' rated debt investments as of June 30, 2009, 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 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, and no high yield issues shall exceed 1 percent of cost or 2 percent of fair value of the fund. There was no concentration of credit risk exceeding these policy guidelines as of June 30, 2009.

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 Retirement Funds manage their exposure to fair value loss by requiring their international securities investment managers to maintain diversified portfolios by sector and by issuer to limit foreign currency and security risk. The Retirement Funds exposure to foreign currency risk is presented in Schedule 3 which provides information on deposits and investments held in various foreign currencies. The schedule is stated in U.S. dollars.

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 JPMorgan to act as agent for the WSIB in securities lending transactions. As JPMorgan is the custodian bank for the WSIB, it is counterparty to securities lending transactions.

In accordance with GASB Statement 28, the Retirement Funds report securities lent (the underlying securities) as assets in the statement of net assets. Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets. Securities received as collateral are reported as assets if the Retirement Funds have the ability to pledge or sell them without a borrower default. Liabilities resulting from these transactions are also reported in the statement of net assets. Securities lending transactions collateralized by securities that Retirement Funds do not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities.

Securities were loaned (consisting of fixed income and equities) and collateralized by the Retirement Funds' agent with cash and U.S. government securities (exclusive of mortgage backed securities and letters of credit), and irrevocable 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 collateral held and fair value of securities on loan at June 30, 2009, was $3,279,279,387 and $3,211,264,920, respectively. As of June 30, 2009, the amounts the Retirement Fund owed the borrowers exceeded the amounts the borrowers owed the Retirement Funds, resulting in no credit risk exposure.

During fiscal year 2009, securities lending transactions could be terminated on demand by either the Retirement Funds or the borrower. The weighted average maturity of term loans amounting to $2,671,190,968 was overnight and 16 days for term loans amounting to $540,073,952 at June 30, 2009.

As of June 30, 2009, the Retirement Funds held the following securities as lending collateral (in thousands):

Asset Backed Securities	$161,047
Cash and Cash Equivalents	1,855,413
U.S. Government Securities	393,380
Commercial Paper	161,719
Miscellaneous	191,299
Medium Term Notes	284,179
Repurchase Agreements	232,243
Total Collateral Held	**$3,279,280**

Cash collateral was invested by the Retirement Funds' agents in securities issued or guaranteed by the U.S. government, in the WSIB's short-term investment pool (average final maturity of 136 days) or term loans. 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. Accordingly, non cash collateral held under securities lending contracts with a value of $365,386,985 has not been included in the statement of net assets. 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. JPMorgan 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. JPMorgan'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 2009, 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, the Retirement Funds incurred no losses during fiscal year 2009 resulting from a default by either the borrowers or the securities lending agents.

NOTE 9. DERIVATIVES

Retirement Funds are authorized to utilize various derivative financial instruments, including mortgage-backed securities, financial futures, forward contracts, interest rate swaps, credit default swaps, equity swaps, and options to manage its exposure to fluctuations in interest and currency rates while increasing portfolio returns. Derivative transactions involve, to varying degrees, market and credit risk. The Retirement Funds mitigate market risks arising from derivative transactions by requiring collateral in cash and investments to be maintained equal to the securities positions outstanding, and thereby prohibiting the use of leverage or speculation. Credit risks arising from derivative transactions are mitigated by selecting and monitoring creditworthy counterparties and collateral issuers.

Consistent with the Retirement Funds' authority to invest in derivatives, international and domestic active equity managers may make limited investments in financial futures, forward contracts or other derivative securities to equitize excess cash holdings.

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. At June 30, 2009, futures contracts with long positions consist of the following:

	(Notional Value)		
	Traded Exposure	Market Exposure	Unrealized Gain (Loss)
Equity Index Futures:			
Australian Dollar	$ 54,100,344	$ 53,202,080	$ (898,264)
Canadian Dollar	74,416,622	73,056,053	(1,360,569)
Euro	339,382,356	332,397,005	(6,985,351)
Hong Kong Dollar	23,175,687	23,529,913	354,226
Japanese Yen	176,189,817	177,445,371	1,255,554
Pound Sterling	163,589,044	158,848,366	(4,740,678)
US Dollar	363,700,159	354,822,390	(8,877,769)
Total Buy Contracts	$ 1,194,554,029	$ 1,173,301,178	$ (21,252,851)

Foreign exchange contracts are agreements to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. The Retirement Funds use these contracts primarily to hedge the currency exposure of its international investments. To reduce the risk of counterparty nonperformance, the Retirement Funds enters into these contracts with institutions meeting high standards of credit worthiness. The unrealized losses on these contracts are included in other liabilities in the statement of net assets and is $(5,889,760) at June 30, 2009. Forward exchange contracts payable and receivable amounted to $2,252,624,163 and $2,246,734,403, respectively. The contracts have varying maturity dates ranging from July 1, 2009, to November 19, 2009.

At June 30, 2009, the Retirement Funds fixed income portfolio held derivative securities consisting of collateralized mortgage obligations of $1,258,934,350. Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of use and holdings of derivative securities by passive equity index fund managers is unavailable.

NOTE 10. SUMMARY OF INVESTMENT POLICIES

Under 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, RCW 42.52, as it makes its investment decisions and seeks to meet the following investment objectives.

In accordance with RCW 43.33.110, the portfolio is managed to achieve a maximum return at a prudent level of risk.

THE RETIREMENT FUND ASSET ALLOCATION

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.

Retirement funds are invested in the CTF. The CTF's performance benchmark objective is to exceed the return of a policy benchmark consisting of public market indices weighted according to asset allocation targets. The asset allocation for the CTF is formally reviewed at least every 4 years. The allocation policy will be reviewed more frequently if the WSIB believes 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.

PUBLIC MARKETS EQUITY

The Public Markets Equity program seeks to achieve returns in line with, or slightly above, its benchmark while managing risk and maintaining liquidity.

The Public Markets Equity portion of the Retirement Funds is benchmarked to the Dow Jones Global Index and includes strategies in the U.S., developed international and emerging markets. Because U.S. equity markets are generally efficient, most of the retirement system investments in this segment are in a low-cost, broad-based passive index fund. The program started the year with 75 percent of U.S. equity invested passively and the remaining 25 percent in enhanced index products. By fiscal year end, over 82 percent of U.S. equity was in passive investments (or in the process of being transitioned to passive) and less than 18 percent remained in enhanced indexing. In keeping with the belief that international equity markets are less efficient, while acknowledging that international efficiency is increasing, the retirement system's developed markets international equity program also increased its use of passive strategies from 20 percent to over 27 percent but kept the majority of the program in active mandates. The entire emerging markets equity program is actively managed.

FIXED INCOME

The portfolio is constrained by policy from investing more than 1 percent of the portfolio's par holdings in any single issuer with a quality rating below investment grade (as defined by Barclays Capital Global Family of Fixed Income Indices). Total holdings of below investment grade credit bonds shall not exceed 15 percent of total bond holdings. The duration of the portfolio (the sensitivity of the portfolio's fair value to changes in the level of interest rates) is to be targeted within 20 percent of the duration of the Barclays Capital Universal Index. In addition, the major sector allocations are limited to the following ranges:

Range	
U.S. Treasuries and Government Agencies	10% – 45%
Credit Bonds	10% – 60%
Asset Backed Securities	0% – 10%
Commercial Mortgage-Backed Securities	0% – 10%
Mortgage-Backed Securities	5% – 45%
Below Investment Grade Credit Bonds	0% – 15%

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 and which is not prohibited by the WSIB's policies or by law. These investment types are divided into venture capital investments, corporate finance (including leveraged, management and employee buyouts), distressed, international and mezzanine investments. Private equity investments are made through limited partnership 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.

REAL ESTATE PROGRAM

The WSIB's real estate program is an externally managed pool of selected partnership investments, 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, combine to generate returns that are expected to fall between the return expectations for fixed income and equities. 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 Fund's real estate partnerships typically invest in private real estate assets that are held for long-term income and appreciation. Many of the Retirement Fund's investment partnerships do not involve co-investment with other financial entities, thereby providing the WSIB with control provisions related to liquidation, acquisition, and ongoing operational decisions for annual capital expenditures.

Volatility including the real estate portfolio is minimized through a combination of factors. First, the majority of the Retirement Fund's partners own real estate assets in a private investment form which are not subject to public market volatility. Secondly, real estate capital is diversified among a host of partners with varying investment styles. Thirdly, partnership assets are invested in numerous economic regions, including foreign markets, and in various property types. Finally, Retirement Fund's partners invest at different points within the properties' capital structure and life cycle.

The WSIB's current benchmark for real estate calls for a target net return of 1-3 percent above the National Council of Real Estate Investment Fiduciaries (NCREIF) property index over a long-term investment horizon defined as at least five years.

INNOVATION PORTFOLIO

The innovation portfolio investment strategy is to provide 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, all Innovation Portfolio investment managers are investing in publicly traded common stock. Their individual holdings have been presented according to asset class on the statement of net assets.

TANGIBLE ASSETS

The primary goal of the tangible asset portfolio is to generate a long-term, high quality, stable income stream. The secondary goal is to generate appreciation approximately commensurate with inflation. The structure of the investments are primarily targeted to be tangible asset operating companies providing the WSIB with governance provisions related to acquisition, dispositions, and ongoing operational decisions for annual capital expenditures. The tangible asset portfolio invests in sectors such as infrastructure, timber, agriculture, natural resource rights, commodities, or other sectors consistent with the goals of the asset class.

The WSIB's current return objective for tangible assets calls for a target benchmark of 4 percent above the U.S. Consumer Price Index over a long-term investment horizon defined as at least five years.

SCHEDULE 1: SCHEDULE OF MATURITIES AND CREDIT QUALITY

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
Asset Backed Securities	$ 69,643,391	$ 69,291,391	$ -	$ -	$ 352,000	0.08	Sched 2
Residential Mortgage Backed Securities	3,325,461,787	64,177,280	2,948,505,093	312,779,414	-	2.75	Sched 2
Commercial Mortgage Backed Securities	476,828,551	39,585,879	209,403,338	227,839,334	-	3.39	Sched 2
Corporate Bonds Domestic (USD)	1,752,535,828	17,065,070	369,194,513	1,043,183,868	323,092,377	6.69	Sched 2
Corporate Bonds Foreign (USD)	3,592,295,595	55,006,650	865,012,803	1,889,519,898	782,756,244	6.25	Sched 2
Corporate Bonds Foreign (Non USD)	303,860,280	24,513,012	128,087,017	83,705,470	67,554,781	2.10	Sched 2
Treasury Inflation Protected Securities (TIPS)	1,368,629,059	485,852,713	579,932,655	302,843,691	-	1.01	AAA
Total Retirement Funds Investment Categorized	10,889,254,491	$ 755,491,995	$ 5,100,135,419	$ 3,859,871,675	$ 1,173,755,402		
Investments Not Required to be Categorized Under GASB Statement No. 3							
Commingled Equity Index Funds	9,887,358,360						
Corporate Stock - U.S. Dollar Denominated	467,415,443						
Corporate Stock - Non U.S. Dollar Denominated	5,806,059,279						
Alternative Investments	18,798,267,278						
Liquidity	1,645,037,085						
Total Investments Not Categorized	36,604,137,445						
Total Investments	$ 47,493,391,936						

SCHEDULE 2: ADDITIONAL CREDIT RATING INFORMATION

Investment Type	Total Fair Value	Moody's Equivalent Credit Rating: Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3&Lower
Asset Backed Securities	$ 69,643,391	$ 22,226,475	$ -	$ 306,123	$ 10,531,407	$ 1,268,538	$ 3,531,628	$ -	$ 5,591,512	$ 3,641,486	$ 22,546,222
Residential Mortgage Backed Securities	3,325,461,787	3,186,134,837	10,383,401	7,852,582	14,697,024	3,955,365	1,003,430	-	4,749,471	8,613,811	88,071,866
Commercial Mortgage Backed Securities	476,828,551	476,828,551	-	-	-	-	-	-		-	-
Corporate Bonds Domestic (USD)	1,752,535,828	344,863	660,955	10,138,600	58,264,543	157,229,663	301,657,233	106,697,454	359,824,783	439,313,309	318,404,425
Corporate Bonds Foreign (USD)	3,592,295,595	108,580,015	47,897,573	259,203,677	195,806,271	335,389,526	298,440,692	243,576,728	401,552,764	891,978,387	809,869,962
Corporate Bonds Foreign (Non USD)	303,860,280	177,262,743	24,513,012	-	-	-	-	22,178,409	-	24,332,840	55,573,276
Treasury Inflation Protected Securities (TIPS)	1,368,629,059	1,368,629,059	-	-	-	-	-	-	-	-	-
Total	$ 10,889,254,491	$ 5,340,006,543	$ 83,454,941	$ 277,500,982	$ 279,299,245	$ 497,843,092	$ 604,632,983	$ 372,452,591	$ 771,718,530	$ 1,367,879,833	$ 1,294,465,751

SCHEDULE 3: FOREIGN CURRENCY EXPOSURE BY COUNTRY

	Investment Type In U.S. Dollar Equivalent							
Foreign Currency Denomination	Currency	Fixed Income	Common Stock	Commingled Equity Index Funds	Private Equity	Real Estate	Total	Percent of Total Retirement Funds Investments
Australia-Dollar	$ 3,335,168	$ 128,894,146	$ 326,488,442	$ 149,997,761	$ 72,474,664	$ 119,403,326	$ 800,593,507	1.7%
Brazil-Real	1,110,119	103,611,998	36,163,062	144,096,873	3,912,903	49,125,940	338,020,895	0.7%
Canada-Dollar	672,894	-	322,000,492	203,500,239	158,687,543	15,685,166	700,546,334	1.5%
Chile - Peso	-	-	-	6,406,640	-	-	6,406,640	Trace
Chinese-Yuan	-	-	-	79,495,203	132,972,940	250,899,914	463,368,057	1.0%
Czech Republic - Koruna	471	-	202,249	4,012,121	8,846,766	12,799,095	25,860,702	0.1%
Denmark-Krone	649,050	-	53,705,278	21,020,219	177,942,177	-	253,316,724	0.5%
E.M.U.-Euro	36,851,739	-	1,672,705,513	653,697,569	1,358,441,842	448,721,226	4,170,417,889	8.8%
Egypt-Pound	-	-	-	19,075,914	-	-	19,075,914	0.1%
French Polynesia - CFP Franc	-	-	-	-	-	105,984,666	105,984,666	0.2%
Hong Kong-Dollar	798,510	-	302,926,835	106,279,279	2,449,188	24,955,099	437,408,911	0.9%
Hungary-Forint	-	-	9,932,838	1,605,320	-	31,621,294	43,159,452	0.1%
India - Rupee	104,395	-	388,029	89,643,159	101,816,466	18,884,940	210,836,989	0.4%
Indonesia-Rupiah	-	-	12,260,206	26,980,929	310,993	-	39,552,128	0.1%
Israel-Shekel	99,622	-	3,539,254	20,717,625	14,026,078	-	38,382,579	0.1%
Japan-Yen	11,121,426	-	1,149,625,934	504,390,242	20,306,422	136,915,813	1,822,359,837	3.8%
Malaysia-Ringgit	-	-	3,525,084	18,195,319	-	-	21,720,403	0.1%
Mexico-Peso	183	22,178,410	6,875,092	57,097,462	6,049,874	860,613,683	952,814,704	2.0%
New Zealand-Dollar	82,338	-	12,441,962	2,714,962	7,346,638	-	22,585,900	0.1%
Norway-Krone	285,608	-	46,378,925	16,643,146	31,171,064	-	94,478,743	0.2%
Pakistan-Rupee	-	-	-	1,860,552	-	-	1,860,552	Trace
Philippines-Peso	28,694	-	-	11,305,008	-	-	11,333,702	0.1%
Poland-Zloty	133,364	-	1,724,220	11,442,544	9,320,598	93,358,108	115,978,834	0.2%
Romainia - Leu	-	-	-	-	-	71,524,357	71,524,357	0.2%
Russia - Ruble	-	-	-	68,262,276	-	752,888	69,015,164	0.1%
Singapore-Dollar	799,408	-	113,195,816	30,388,015	91,502,306	7,419,083	243,304,628	0.5%
South Africa-Rand	44,914	-	54,736,020	76,938,895	13,674,943	-	145,394,772	0.3%
South Korea-Won	107,975	-	41,690,475	126,185,908	13,860,595	206,385,413	388,230,366	0.8%
Sweden-Krona	1,683,461	-	148,160,837	50,541,247	202,456,559	752,888	403,594,992	0.8%
Switzerland-Franc	848,930	-	375,496,230	147,457,343	5,046,532	752,888	529,601,923	1.1%
Taiwanese-Dollar	40,530	-	6,435,663	79,933,625	16,032,113	-	102,441,931	0.2%
Thailand-Baht	-	-	1,028,259	27,483,062	-	16,861,553	45,372,874	0.1%
Turkey-Lira	174,388	49,175,726	18,672,859	45,490,887	42,156,138	-	155,669,998	0.3%
United Kingdom - Pound	4,345,350	-	1,085,759,705	425,453,024	515,257,531	65,501,253	2,096,316,863	4.4%
Other - Miscellaneous	-	-	-	5,868,524	89,308,573	41,291,200	136,468,297	0.3%
	63,318,537	303,860,280	5,806,059,279	3,234,180,892	3,095,371,446	2,580,209,793	15,083,000,227	31.8%
Foreign Investments Denominated in U.S. Dollars	-	3,592,295,595	128,316,674	-	-	-	3,720,612,269	7.8%
U.S. Dollars - Held Domestically	26,961,508	-	-	-	-	-	26,961,508	0.1%
	$ 90,280,045	$ 3,896,155,875	$ 5,934,375,953	$ 3,234,180,892	$ 3,095,371,446	$ 2,580,209,793	$ 18,830,574,004	39.7%

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INDEPENDENT AUDITORS' REPORT

To the Members of the Washington State Investment Board

Olympia, Washington

We have audited the accompanying statement of net assets for the Labor & Industries' Funds of the State of Washington as managed by the Washington State Investment Board ("the Labor & Industries' Funds") as of June 30, 2009, and the related statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Washington State Investment Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to in the first paragraph present only the investment activity of the Labor & Industries' Funds as managed by the Washington State Investment Board. The financial statements do not purport to, and do not, present the financial activity of the Department of Labor & Industries of the State of Washington. Further, they do not purport to, and do not, present the financial activity of the Washington State Investment Board or of the State of Washington.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the net assets of the Labor & Industries' Funds as of June 30, 2009, and the changes in net assets for the year then ended in conformity with accounting principles generally accepted in the United States.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Labor & Industries' Funds. Management's Discussion and Analysis preceding the financial statements is presented for purposes of additional analysis and is not a required part of the financial statements referred to in the first paragraph. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. The introduction section of the annual report has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

/S/ PETERSON SULLIVAN LLP

October 28, 2009

Management's Discussion and Analysis for the Labor & Industries' Funds of the State of Washington (L&I Funds), managed by the WSIB, is presented as an introduction to the financial statements and 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 State of Washington 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.

Following this section of the report are the financial statements and footnotes. The Statement of Net Assets provides information on the types of investments and the liabilities of the L&I Funds. This information is summarized in Table 1. Table 1 also compares the asset, liability, and net asset balances at June 30, 2009, with those at June 30, 2008. The Statement of Changes in Net Assets provides information on investment performance and other increases and decreases in the net assets of the L&I Funds for the year ended June 30, 2009. This information is summarized in Table 2. Table 2 also compares the financial activities of the L&I Funds for the year ended June 30, 2009, with those of the year ended June 30, 2008. 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 L&I Funds.

As shown in Table 1, the net assets of the L&I Funds decreased by $(123.4) million during the fiscal year ended June 30, 2009. Net investment income reinvested in the fund totaled $477.9 million. Net unrealized losses for the year due to current market volatility reduced net assets by $(262.3) million. Distributions to beneficiary funds reduced net assets by $(339.0) million.

The following summarizes the changes within each grouping listed within Table 1:

- Money market funds increased by $253.9 million. Income reinvested in this short term investment vehicle totaled $472.8 million. Fixed income securities were sold and transferred to money market funds in the amount of $120.1 million. Distributions decreased this asset class by $(339.0) million. Cash balances are being reinvested longer term cautiously due to the current market situation resulting in higher than normal balances.
- Fixed income securities decreased by $(213.0) million. Due to necessary rebalancing to maintain asset allocation strategic targets within the current volatile public equity markets, fixed income securities were sold to raise cash. Transfers out of this asset class to other investment vehicles totaled $(289.0) million. Pending trades payable decreased fixed income securities by $(11.9) million. Unrealized gains due to market fluctuations increased this asset class by $87.9 million. With the exception of Treasury Inflation Protected Securities (TIPS), the change in the value of the fixed income investments increased due to the decreases in interest rates experienced throughout the fiscal year.
- Equity investments decreased by $(176.2) million. Reinvested income increased commingled fund equity holdings by $7.2 million. Additional equity investments purchased totaled $166.9 million which was funded from fixed income security sales. Unrealized losses incurred due to the current market volatility decreased equities by $(350.3) million.
- Collateral held and obligations under securities lending agreements decreased by $(345.5) million. Due to market volatility and difficulty recalling securities on loan to settle bond sales, lending activities were halted on all corporate bonds during the current fiscal year. Accordingly, fewer securities were on loan at June 30, 2009 compared to June 30, 2008. The WSIB continues to lend U.S. Government securities within the portfolio.

Table 1 - Summarized Net Assets	2009	2008	Dollar Change	Percent Change
Money Market Funds	$429,911,030	$176,005,976	$253,905,054	144.3%
Fixed Income Investments	9,295,176,393	9,508,153,089	(212,976,696)	-2.2%
Equity Investments	1,158,922,170	1,335,048,262	(176,126,092)	-13.2%
Total Investments	**10,884,009,593**	**11,019,207,327**	**(135,197,734)**	**-1.2%**
Collateral Held Under Securities Lending Agreements	1,806,129,610	2,151,635,230	(345,505,620)	-16.1%
Investment Receivables - Other	99,743,124	99,909,837	(166,713)	-0.2%
Total Assets	**12,789,882,327**	**13,270,752,394**	**(480,870,067)**	**-3.6%**
Obligations Under Securities Lending Agreements	1,806,129,610	2,151,635,230	(345,505,620)	-16.1%
Investment Payables - Other	10,226,431	22,144,311	(11,917,880)	-53.8%
Total Liabilities	**1,816,356,041**	**2,173,779,541**	**(357,423,500)**	**-16.4%**
Net Assets	**$10,973,526,286**	**$11,096,972,853**	**$(123,446,567)**	**-1.1%**

Table 2 - Summarized Changes in Net Assets	2009	2008	Dollar Change
Net Investment Income			
Interest, Dividends and Other Investment Income	$539,329,671	$603,008,778	$(63,679,107)
Net Capital Gains (Losses)	(42,047,114)	347,640,586	(389,687,700)
Unrealized Losses	(262,347,652)	(422,618,662)	160,271,010
Less:			
Securities Lending Broker Rebates and Management Fees	(16,698,040)	(59,237,386)	42,539,346
Investment Expenses	(731,555)	(918,166)	186,611
WSIB Operating Expenses	(1,911,246)	(1,502,732)	(408,514)
Net Investment Income	**215,594,064**	**466,372,418**	**(250,778,354)**
Net Amount Withdrawn	(339,040,631)	(465,411,391)	126,370,760
Net Assets - Beginning	**11,096,972,853**	**11,096,011,826**	**961,027**
Net Assets - Ending	**$10,973,526,286**	**$11,096,972,853**	**$(123,446,567)**

As shown in Table 2, premiums less benefit payouts, or net amount withdrawn, decreased by $(126.4) million. The L&I Medical Aid Fund increased rates during the current fiscal year which reduced funding needs from the investment portfolio. Interest and other investment income decreased by $(63.7) million due to a reduction of fixed income securities from portfolio rebalancing, as discussed above, and a decline in interest rates during the current fiscal year. Net realized losses increased by $389.7 during the current fiscal year from selling of fixed income holdings in a volatile market to rebalance the portfolio and to meet requests for withdrawals. Unrealized losses within the portfolio were entirely due to the equity position held throughout the fiscal year and the current volatility in the equity markets. Unrealized losses decreased by $(160.3) million due to realization of losses from rebalancing the portfolio and purchasing equity securities at current market prices in a deflated equity market. Securities lending broker rebates decreased by $(42.5) million due to a narrowing of the spreads paid to brokers in the current lending environment.

The fair value of L&I assets 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 the 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, upon receiving recommendations from L&I staff, WSIB staff, and other investment experts, makes the asset allocation decisions for the L&I assets. Staff rebalances the L&I Funds' assets between asset classes as markets move pursuant to WSIB policy.

L&I FUNDS STATEMENT OF NET ASSETS - JUNE 30, 2009

SEE NOTES TO FINANCIAL STATEMENTS

	Accident Fund	Medical Aid Fund	Pension Reserves Fund	Supplemental Pension Fund	Total	Percent of Total
ASSETS						
Investments:						
LIQUIDITY:						
Money Market Funds	$ 170,370,838	$ 109,863,020	$ 135,054,848	$ 14,622,324	$ 429,911,030	3.9%
FIXED INCOME INVESTMENTS:						
Residential Mortgage Backed Securities	752,757,363	531,237,247	428,985,153	42,930	1,713,022,693	
Commercial Mortgage Backed Securities	224,518,724	138,722,118	158,513,716	-	521,754,558	
Corporate Bonds - Domestic	1,010,887,319	889,130,819	926,443,606	11,590,483	2,838,052,227	
Corporate Bonds - Foreign (U.S. Dollar Denominated)	872,854,517	713,398,434	657,272,675	12,417,892	2,255,943,518	
U.S. Government Treasuries	278,135,100	49,848,436	82,410,400	14,090,208	424,484,144	
U.S. Treasury Inflation Protected Securities	459,856,876	798,496,960	283,565,417	-	1,541,919,253	
Total Fixed Income Investments	3,599,009,899	3,120,834,014	2,537,190,967	38,141,513	9,295,176,393	85.4%
EQUITY INVESTMENTS:						
Commingled Index Funds - Domestic	226,521,220	292,246,221	148,863,683	-	667,631,124	
Commingled Index Funds - Foreign	166,332,402	215,179,845	109,778,799	-	491,291,046	
Total Equity Investments	392,853,622	507,426,066	258,642,482	-	1,158,922,170	10.6%
Total Investments	4,162,234,359	3,738,123,100	2,930,888,297	52,763,837	10,884,009,593	100.0%
Investment Earnings Receivable	38,274,695	31,859,779	29,186,944	414,149	99,735,567	
Receivable for Investments Sold	3,382	2,614	1,561	-	7,557	
Collateral Held Under Securities Lending Agreements	684,230,783	783,714,700	333,005,265	5,178,862	1,806,129,610	
Total Assets	4,884,743,219	4,553,700,193	3,293,082,067	58,356,848	12,789,882,327	
LIABILITIES						
Obligations Under Securities Lending Agreements	684,230,783	783,714,700	333,005,265	5,178,862	1,806,129,610	
Accounts Payable	91,090	93,463	41,312	566	226,431	
Payable for Investments Purchased	4,000,000	3,000,000	3,000,000	-	10,000,000	
Total Liabilities	688,321,873	786,808,163	336,046,577	5,179,428	1,816,356,041	
NET ASSETS	$ 4,196,421,346	$ 3,766,892,030	$ 2,957,035,490	$ 53,177,420	$ 10,973,526,286	

L&I FUNDS STATEMENT OF CHANGES IN NET ASSETS - YEAR ENDED JUNE 30, 2009

SEE NOTES TO FINANCIAL STATEMENTS

	Accident Fund	Medical Aid Fund	Pension Reserves Fund	Supplemental Pension Fund	Total
Net Investment Income					
Investment Income:					
Interest, Dividends and Other Investment Income	$ 206,890,555	$ 155,221,432	$ 139,927,816	$ 2,456,568	$ 504,496,371
Securities Lending Income	13,117,335	14,590,007	7,024,707	101,251	34,833,300
Realized Capital Gains	10,398,740	2,325,434	1,073,567	222,048	14,019,789
Realized Capital Losses	(13,610,860)	(17,996,081)	(23,657,091)	(802,871)	(56,066,903)
Unrealized Gains and Losses	(90,582,720)	(130,984,946)	(41,606,207)	826,221	(262,347,652)
Less:					
Securities Lending Broker Rebates and Management Fees	(6,184,975)	(7,048,387)	(3,417,652)	(47,026)	(16,698,040)
Investment Expenses	(289,828)	(243,358)	(192,467)	(5,902)	(731,555)
WSIB Operating Expenses	(744,057)	(661,366)	(490,134)	(15,689)	(1,911,246)
Net Investment Income	118,994,190	15,202,735	78,662,539	2,734,600	215,594,064
Net Amount Contributed (Withdrawn)	(225,923,741)	(122,272,818)	42,275,239	(33,119,311)	(339,040,631)
Increase (Decrease) in Net Assets	(106,929,551)	(107,070,083)	120,937,778	(30,384,711)	(123,446,567)
Net Assets - June 30, 2008	4,303,350,897	3,873,962,113	2,836,097,712	83,562,131	11,096,972,853
Net Assets - June 30, 2009	$ 4,196,421,346	$ 3,766,892,030	$ 2,957,035,490	$ 53,177,420	$ 10,973,526,286

NOTE 1. DESCRIPTION OF FUNDS AND SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF FUNDS

The Labor & Industries' Funds (L&I Funds) consist mainly of the investment of insurance premiums collected from employers in the State of Washington. 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 and results of operations of the WSIB or the State of Washington Department of Labor & Industries.

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.

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. The L&I Funds have no investments of any commercial or industrial organization whose fair value exceeds 5 percent of each plan's net assets. Investments are adjusted to fair values monthly. Unrealized gains and losses are included as investment income in the statement of changes in net assets.

REVENUE RECOGNITION

Interest and dividend income is 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 L&I Funds record collateral received under securities lending agreements where the L&I Funds have the ability to spend, pledge or sell the collateral without borrower default. Liabilities resulting from these transactions are also recorded. Additionally, costs associated with securities lending transactions, including broker commissions paid and lending fees paid to the custodian bank, are reported as investment expenses in the accompanying financial statements. The statement of net assets does not include detailed holdings of securities lending collateral by investment classification.

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 L&I 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. WSIB operating expenses are allocated to the funds under management based on relative market values, in accordance with State statutes.

NOTE 3. DEPOSIT AND INVESTMENT RISK DISCLOSURES

CUSTODIAL CREDIT RISK – DEPOSITS

Custodial credit risk for deposits is the risk that in the event of a bank failure the L&I Fund's deposits may not be returned to it. The L&I Funds do not have a deposit policy for custodial credit risk. As of June 30, 2009, there were no deposits with the custodial bank.

CUSTODIAL CREDIT RISK – INVESTMENTS

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the L&I Funds will not be able to recover the value of investments that are in the possession of an outside party. The L&I Funds do not have an investment policy specifically for custodial credit risk. The securities lending collateral balances are from securities required to be listed under GASB Statement 3 Category 3 – Uninsured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the Funds' name. (This includes the amount of any repurchase agreement that exceeds the fair value of the underlying securities).

INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Effective duration is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Effective duration uses the present value of cash flows, weighted for those flows as a percentage of the investment's full price. Increases in prevailing interest rates generally translate into decreases in fair values of those investments. The L&I Funds' fixed income investments are to be actively managed to exceed the return of the Comparable Market Index (CMI), with volatility as measured by duration to be similar to or less than the index. As of June 30, 2009, the L&I Funds' durations of the various fixed income classes were within the duration targets of the CMI.

Schedule 1 provides information about the interest rate risks associated with the L&I investments as of June 30, 2009. The schedule displays various asset classes held by maturity in years, effective durations, and credit ratings. Residential mortgage backed, commercial mortgage backed, and asset backed 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. All other securities on this schedule are reported using the stated maturity date.

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' rated debt investments as of June 30, 2009, 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 L& I Funds' policy states no corporate fixed income issue's cost shall exceed 3 percent of the fund's fair value at the time of purchase, nor shall its fair value exceed 6% of the fund's fair value at any time. There was no concentration of credit risk as of June 30, 2009.

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 security held by the L&I Funds with foreign currency risk at June 30, 2009, consists of $491,291,046 invested in an international commingled equity index fund. Currency exposure for this commingled index fund is presented in Schedule 3.

NOTE 4. SECURITIES LENDING

Washington State law and WSIB policy permit the L&I Funds to participate in securities lending programs to augment investment income. The WSIB has entered into an agreement with JPMorgan to act as agent for the WSIB in securities lending transactions. As JPMorgan is the custodian bank for the WSIB, it is counterparty to securities lending transactions.

In accordance with GASB Statement 28, the L&I Funds report securities lent (the underlying securities) as assets in the statement of net assets. Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets. Securities received as collateral are reported as assets if the L&I Funds have the ability to pledge or sell them without a borrower default. Liabilities resulting from these transactions are also reported in the statement of net assets. Securities lending transactions collateralized by securities that the L&I Funds do not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities.

Fixed income securities were loaned and collateralized by the L&I Funds' agent with cash and U.S. government securities (exclusive of mortgage backed securities and letters of credit), and irrevocable 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 collateral held and fair value of securities on loan at June 30, 2009 was $2,032,609,089 and $1,990,451,509, respectively. As of June 30, 2009, the amounts the L&I Funds owed the borrowers exceeded the amounts the borrowers owed the L&I Funds, resulting in no credit risk exposure.

As of June 30, 2009, the L&I Funds held the following securities as collateral (in thousands)

Asset Backed Securities	$99,823
Cash and Cash Equivalents	1,150,048
U.S. Treasuries and Agencies	243,830
Commercial Paper	100,239
Miscellaneous	118,574
Medium Term Notes	176,144
Repurchase Agreements	143,951
Total Collateral Held	**$2,032,609**

During fiscal year 2009, securities lending transactions could be terminated on demand by either the L&I Funds or the borrower. All loans held at June 30, 2009, matured overnight. Cash collateral was invested by the L&I Funds' agents in securities issued or guaranteed by the U.S. government, in the WSIB's short-term investment pool (average final maturity of 60 days) or term loans. 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. Accordingly, non cash collateral held under securities lending contracts with a value of $226,479,479 has not been included in the statement of net assets. 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. JPMorgan 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. JPMorgan'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 2009, 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, the L&I Funds incurred no losses during fiscal year 2009 resulting from a default by either the borrowers or the securities lending agents.

NOTE 5. DERIVATIVES

L&I Funds are authorized to utilize various derivative financial instruments, including mortgage-backed securities, financial futures, forward contracts, interest rate and equity swaps, and options to manage its exposure to fluctuations in interest, and currency rates while increasing portfolio returns. Derivative transactions involve, to varying degrees, market and credit risk. L&I Funds mitigate market risks arising from derivative transactions by requiring collateral in cash and investments to be maintained equal to the securities positions outstanding, and thereby prohibiting the use of leverage or speculation. Credit risks arising from derivative transactions are mitigated by selecting and monitoring creditworthy counterparties and collateral issuers.

Consistent with the L&I Funds' authority to invest in derivatives, international active equity managers may make limited investments in financial futures, forward contracts or other derivative securities to manage exposure to currency rate risk and equitize excess cash holdings. No such derivative securities were held as of June 30, 2009. Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of use and holdings of derivative securities by passive equity index fund managers is unavailable. At June 30, 2009, the only derivative securities held directly by L&I Funds were collateralized mortgage obligations of $1,711,755,026.

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, RCW 42.52, as it makes its investment decisions and seeks to meet the following investment objectives.

STRATEGIC OBJECTIVES

In accordance with RCW 43.33.110, these portfolios are to be managed to limit fluctuations in the industrial insurance premiums, and subject to this purpose, 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.

PERFORMANCE OBJECTIVES

The performance objectives are intended to provide the WSIB and L&I Funds 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 judged relative to the Strategic 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 CMI's 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. The return for each fund's portfolio should not be significantly different from that of its CMI over the long term.

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.110 and RCW 43.33A.140, which state, 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."
- No corporate fixed income issue'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 funds' fair value at any time (RCW 43.33A.140).

ASSET ALLOCATION – TARGET AND RANGES

	Fixed Income	TIPS	Equity
Accident Fund			
	80%±4	10%±2	10%±2
Pension Reserve Fund			
	80%±4	10%±2	10%±2
Medical Aid Fund			
	65%±5	20%±3	15%±3
Supplemental Pension Fund			
	100%	NA	NA

Asset allocation will be reviewed every 3-4 years, or sooner, if there are significant changes in funding levels or the liability durations.

Market conditions, funding status, and liability assumptions are dynamic, not static; therefore, WSIB staff will meet quarterly with L&I staff to review the investment portfolio, the status of the funding levels, the liability durations and to evaluate the percentage of the supplemental pension fund that is to be considered non-cash.

Assets will be rebalanced across asset classes when 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, they need not occur immediately.

ASSET CLASS STRUCTURE

Asset class structure is established by the WSIB with guidelines for staff to move assets in order to achieve the fund's overall objectives.

EQUITY

Equity Allocation	Target	Range
U.S. Equity	60%	55%-65%
International Equity	40%	35%-45%

The benchmark and structure for U.S. equities will be the broad U.S. stock market as defined by the Dow Jones U.S. Total Stock Market Index The benchmark and structure for international equities will be the Morgan Stanley Capital International All Country World Ex U.S. Investable Market Index (MSCI ACW Ex U.S. IMI). Both portfolios will be 100 percent passively managed in commingled index funds. The commingled funds may use futures for hedging or establishing a long position.

TREASURY INFLATION PROTECTION SECURITIES

The treasury inflation protection securities (TIPS) will be managed to plus or minus 20 percent of the duration of the Barclays Capital U.S. TIPS Index.

FIXED INCOME

The fixed income portfolios' structure will vary widely among funds depending upon the required duration target.

- Accident Fund (608): within plus or minus 20 percent of a duration target of 7.
- Pension Reserve Fund (610): within plus or minus 20 percent of a duration target of 7.
- Medical Aid Fund (609): within plus or minus 20 percent of a duration target of 6.
- Supplemental Pension Fund (881): the non-cash portion of the portfolio will have a duration that is between 1.75 and 2.25 years.

The duration targets will be reviewed every 3 years, or sooner, if there are significant changes in the funding levels or the liability durations.

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, over any extended period of time those differences should not be material.

PERMISSIBLE FIXED INCOME INVESTMENTS

- U.S. Treasuries and Government Agencies
- Credit Bonds
- Mortgage-Backed Securities rated investment grade, as defined by Barclays Capital Global Family of Fixed Income Indices
- Asset-Backed Securities rated investment grade, as defined by Barclays Capital Global Family of Fixed Income Indices
- Commercial Mortgage-Backed Securities rated investment grade, as defined by Barclays Capital 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.

Target allocations for the Fixed Income Sectors:	
U.S. Treasuries and Government Agencies	5% - 25%
Credit Bonds	20% - 70%
Asset Backed Securities	0% - 10%
Commercial Mortgage Backed Securities	0% - 10%
Mortgage Backed Securities	0% - 25%

Total holdings of below investment grade credit bonds (as defined by Barclays Capital Global Family of Fixed Income Indices) should not exceed 5 percent of total fixed income holdings.

SCHEDULE 1: SCHEDULE OF MATURITIES AND CREDIT RATINGS

Investment Type	Total Fair Value	Maturity: Less than 1 year	1-5 years	6-10 years	More than 10	Effective Duration	Credit Rating
Residental Mortgage Backed Securities	$ 1,713,022,693	$ 10,476,814	$ 253,096,742	$ 776,786,090	$ 672,663,047	6.89	Schedule 2
Commercial Mortgage Backed Securities	521,754,558	2,077,217	229,371,911	289,489,819	815,611	3.85	AAA
Corporate Bonds - Domestic	2,838,052,227	83,156,989	607,229,892	911,037,254	1,236,628,092	7.96	Schedule 2
Corporate Bonds - Foreign (USD)	2,255,943,518	83,032,680	702,602,797	819,569,240	650,738,801	6.43	Schedule 2
Government Securities-Domestic:							
U.S. Government Treasuries	424,484,144	424,484,144	-	-	-	0.89	AAA
U.S. Treasury Inflation Protected Securities	1,541,919,253	315,561,956	207,787,873	503,646,861	514,922,563	4.09	AAA
	9,295,176,393	$ 918,789,800	$ 2,000,089,215	$ 3,300,529,264	$ 3,075,768,114		

Investments Not Required to be Categorized Under GASB Statement No. 3:

Commingled Index Funds-Domestic	667,631,124
Commingled Index Funds-Foreign	491,291,046
Money Market Funds	429,911,030
Total Investments Not Categorized	1,588,833,200
Total L & I Funds Investments	$ 10,884,009,593

SCHEDULE 2: ADDITIONAL CREDIT RATING DISCLOSURES

Investment Type	Total Fair Value	Moody's Equivalent Credit Rating: Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Other
Residential Mortgage Backed Securities	$ 1,713,022,693	$ 1,698,889,649	$ -	$ -	$ -	$ 14,133,044	$ -	$ -	$ -	$ -	$ -
Corporate Bonds - Domestic	2,838,052,227	4,722,790	-	-	267,072,172	305,894,435	790,096,557	297,208,410	423,033,261	553,623,676	196,400,926
Corporate Bonds - Foreign (USD)	2,255,943,518	372,212,489	73,322,579	173,076,410	215,238,427	246,978,979	93,396,687	250,056,009	201,955,398	382,915,455	246,791,085
Total	$ 6,807,018,438	$ 2,075,824,928	$ 73,322,579	$ 173,076,410	$ 482,310,599	$ 567,006,458	$ 883,493,244	$ 547,264,419	$ 624,988,659	$ 936,539,131	$ 443,192,011

SCHEDULE 3: FOREIGN CURRENCY EXPOSURE BY COUNTRY

	Commingled Equity Index - Foreign				
Foreign Country and Currency Denomination	Accident Fund	Medical Aid Fund	Pension Reserves Fund	Total	Percent of Total Investments
Australia-Dollar	$ 8,733,995	$ 11,299,030	$ 5,764,444	$ 25,797,469	0.2%
Belgium-Euro	1,179,043	1,525,311	778,168	3,482,522	Trace
Brazil-Real	4,900,065	6,339,213	3,233,823	14,473,101	0.1%
Canada-Dollar	11,820,700	15,289,150	7,802,833	34,912,683	0.3%
Chinese-Yuan	6,676,342	8,637,251	4,406,063	19,719,656	0.2%
Denmark-Krone	1,222,533	1,581,573	806,870	3,610,976	0.0%
Finland-Euro	1,562,148	2,020,927	1,031,019	4,614,094	0.1%
France -Euro	11,506,018	14,885,133	7,594,001	33,985,152	0.3%
Germany-Euro	8,921,418	11,541,489	5,888,150	26,351,057	0.2%
Hong Kong-Dollar	2,861,653	3,702,075	1,888,694	8,452,422	0.1%
India-Ruppee	2,832,924	3,665,093	1,869,557	8,367,574	0.1%
Israel-Shekel	1,012,285	1,309,606	668,059	2,989,950	Trace
Italy-Euro	4,153,471	5,373,280	2,741,295	12,268,046	0.1%
Japan-Yen	29,754,727	38,493,246	19,638,116	87,886,089	0.8%
Malaysia-Ringgit	1,065,268	1,378,179	703,015	3,146,462	Trace
Mexico-Peso	1,457,352	1,885,370	961,788	4,304,510	0.1%
Netherlands-Euro	2,798,254	3,620,058	1,846,850	8,265,162	0.1%
Norway-Krone	1,031,598	1,334,568	680,850	3,047,016	Trace
Russia-Ruble	1,912,580	2,474,246	1,262,235	5,649,061	0.1%
Singapore-Dollar	1,730,741	2,239,053	1,142,288	5,112,082	0.1%
South Africa-Rand	2,716,769	3,514,780	1,792,914	8,024,463	0.1%
South Korea-Won	4,433,110	5,735,247	2,925,610	13,093,967	0.1%
Spain-Euro	5,011,683	6,483,526	3,307,722	14,802,931	0.1%
Sweden-Krona	3,016,283	3,902,121	1,990,746	8,909,150	0.1%
Switzerland-Franc	8,407,944	10,877,213	5,549,260	24,834,417	0.2%
Taiwanese-Dollar	4,446,040	5,752,077	2,934,109	13,132,226	0.1%
United Kingdom-GP Pounds	24,862,638	32,164,400	16,409,362	73,436,400	0.7%
Other - Miscellaneous	6,304,820	8,156,630	4,160,958	18,622,408	0.2%
Total	$ 166,332,402	$ 215,179,845	$ 109,778,799	$ 491,291,046	4.5%

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INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF THE WASHINGTON STATE INVESTMENT BOARD

OLYMPIA, WASHINGTON

We have audited the accompanying statement of net assets for the Permanent Funds (Millersylvania Park, American Indian Scholarship Endowment, Agricultural School, Normal School, Common School, Scientific School, and State University) of the State of Washington as managed by the Washington State Investment Board ("the Permanent Funds") as of June 30, 2009, and the related statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Washington State Investment Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to in the first paragraph present only the investment activity of the Permanent Funds as managed by the Washington State Investment Board. The financial statements do not purport to, and do not, present the financial activity of the Permanent Funds of the other state agencies. Further, they do not purport to, and do not, present the financial activity of the Washington State Investment Board or of the State of Washington.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the net assets of the Permanent Funds as of June 30, 2009, and the changes in net assets for the year then ended in conformity with accounting principles generally accepted in the United States.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Permanent Funds. Management's Discussion and Analysis preceding the financial statements is presented for purposes of additional analysis and is not a required part of the financial statements referred to in the first paragraph. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. The introduction section of the annual report has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

/S/ PETERSON SULLIVAN LLP

October 28, 2009

Management Discussion & Analysis

Management's Discussion and Analysis for the Permanent Funds of the State of Washington, managed by the Washington State Investment Board (WSIB), is presented as an introduction to the financial statements and 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 State of Washington departments. This section of the report represents only the Permanent Funds portion.

Following this section of the report are the financial statements and footnotes. The Statement of Net Assets provides information on the types of investments and the liabilities of the Permanent Funds. This information is summarized in Table 1. Table 1 also compares the asset, liability, and net asset balances at June 30, 2009, with those at June 30, 2008. The Statement of Changes in Net Assets provides information on investment performance and other increases and decreases in the net assets of the Permanent Funds for the year ended June 30, 2009. This information is summarized in Table 2. Table 2 also compares the financial activities of the Permanent Funds for the year ended June 30, 2009, with those of the year ended June 30, 2008. 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 Permanent Funds.

As shown in Table 1, the net assets of the Permanent Funds increased by $20.2 million during the fiscal year ended June 30, 2009. Contributions from the Department of Natural Resources increased net assets by $8.8 million, which were invested in fixed income securities. Unrealized gains (losses) in the fixed income portfolio totaled $17.2 million and the equity portfolio $(2.7) million for a total net asset value increase of $14.5 million. Distributions to beneficiary funds reduced net assets by $35.3 million. The remaining increase of $32.2 million represents reinvestment of other net investment income within the portfolio.

The following summarizes the changes within each grouping listed within Table 1:

- Money market funds decreased by $0.4 million due to distributions to beneficiaries.
- Fixed income investments increased by $23.5 million. Unrealized gains for the year totaled $17.2 million. With the exception of Treasury Inflation Protected Securities (TIPS) held in the Commingled Monthly Bond Fund (CMBF), the change in the value of the fixed income investments increased due to the decreases in interest rates experienced throughout the fiscal year. Contributions received of $8.8 million were invested in the CMBF and increased this asset class. The remaining decrease of $2.5 million represents income distributions to beneficiaries in excess of income collected in the CMBF. During the current fiscal year, the Permanent Funds' income distribution policy changed. Amortization of premiums related the initial CMBF asset transfers was ceased and resulted in a one-time increase to distributable income for prior year amortization.
- Equity investments decreased by $2.7 million due exclusively to unrealized losses resulting from the current volatility in the market.
- The change in net receivables and payables was insignificant.

WSIB staff rebalances the Permanent Funds' assets between asset classes as markets move pursuant to WSIB policy.

Table 1 - Summarized Net Assets	2009	2008	Dollar Change	Percent Change
Money Market Funds	$855,893	$1,272,511	$(416,618)	-32.7%
Fixed Income Investments	792,722,965	769,225,075	23,497,890	3.1%
Equity Investments	7,640,232	10,375,899	(2,735,667)	-26.4%
Total Investments	**801,219,090**	**780,873,485**	**20,345,605**	**2.6%**
Earnings Receivable	2,559,978	2,656,315	(96,337)	-3.6%
Total Assets	**803,779,068**	**783,529,800**	**20,249,268**	**2.6%**
Distributions Payable	2,742,895	2,649,091	93,804	3.5%
Net Assets	**$801,036,173**	**$780,880,709**	**$20,155,464**	**2.6%**

As shown in Table 2, net investment income decreased by $(13.4) million. Interest rates during the year have declined resulting in less distributable income to the Permanent Funds from the CMBF. In addition, during 2008 the WSIB made a decision to commingle the bonds held by each individual Permanent Fund. Accordingly, after establishing the CMBF only distributable income is reported and allocated to each individual Permanent Fund based on ownership percentages.

Contributions received from the Department of Natural Resources decreased due to declining timber prices and sales.

Distributions to beneficiaries increased by $1.2 million. As discussed above, the Permanent Funds' income distribution policy was changed and resulted in a one time increase to distributable income. The decrease in income collections due to falling interest rates was partially offset by this one time amortization adjustment.

The fair value of the Permanent Fund assets 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.

Table 2 - Summarized Changes in Net Assets	2009	2008	Dollar Change	Percent Change
Net Investment Income				
Interest, Dividends and Other Investment Income	$32,334,977	$57,380,137	$(25,045,160)	-44%
Unrealized Gains	14,445,815	6,208,142	8,237,673	133%
Less:				
Securites Lending Broker Rebates	-	(3,399,878)	3,399,878	-100%
Investment Fees	(141,031)	(133,478)	(7,553)	6%
Net Investment Income	**46,639,761**	**60,054,923**	**(13,415,162)**	**-22%**
Net Amount Contributed	8,809,178	15,138,516	(6,329,338)	-42%
Distributions to Beneficiaries	(35,293,475)	(34,076,577)	(1,216,898)	4%
Net Assets - Beginning	**780,880,709**	**739,763,847**	**41,116,862**	**6%**
Net Assets - Ending	**$801,036,173**	**$780,880,709**	**$20,155,464**	**3%**

PERMANENT FUNDS STATEMENT OF NET ASSETS - JUNE 30, 2009
SEE NOTES TO FINANCIAL STATEMENTS

	Millersylvania Park	American Indian Scholarship Endowment	Agricultural School	Normal School	Common School	Scientific School	State University	Total	Percent of Total
ASSETS									
Investments:									
Money Market Funds	$ 5,152	$ 299,739	$ 53,048	$ 207,992	$ 52,076	$ 187,378	$ 50,508	$ 855,893	0.1%
Commingled Monthly Bond Fund	-	332,689	174,159,142	227,672,857	168,715,086	192,770,035	29,073,156	792,722,965	98.9%
Commingled Equity Index Fund - Domestic	-	-	-	-	7,640,232	-	-	7,640,232	1.0%
Total Investments	5,152	632,428	174,212,190	227,880,849	176,407,394	192,957,413	29,123,664	801,219,090	100.0%
Investment Earnings Receivable	2	1,129	562,394	735,228	544,817	622,517	93,891	2,559,978	
Total Assets	5,154	633,557	174,774,584	228,616,077	176,952,211	193,579,930	29,217,555	803,779,068	
LIABILITIES									
Distributions Payable	2	-	602,854	788,174	583,863	667,348	100,654	2,742,895	
NET ASSETS	$ 5,152	$ 633,557	$ 174,171,730	$ 227,827,903	$ 176,368,348	$ 192,912,582	$ 29,116,901	$ 801,036,173	

PERMANENT FUNDS STATEMENT OF CHANGES IN NET ASSETS - YEAR ENDED JUNE 30, 2009
SEE NOTES TO FINANCIAL STATEMENTS

	Millersylvania Park	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	$ 85	$ 16,281	$ 7,712,740	$ 9,057,837	$ 6,726,012	$ 7,663,987	$ 1,160,664	$ 32,337,606
Realized Capital Gains	-	-	15	-	-	-	-	15
Realized Capital Losses	-	(154)	(1,853)	(180)	(314)	(74)	(69)	(2,644)
Unrealized Gains	-	7,271	3,775,843	4,943,720	900,941	4,192,223	625,817	14,445,815
Less:								
Investment Expenses	-	-	-	-	(746)	-	-	(746)
WSIB Operating Expenses	-	(105)	(30,292)	(39,884)	(31,147)	(33,742)	(5,115)	(140,285)
Net Investment Income	85	23,293	11,456,453	13,961,493	7,594,746	11,822,394	1,781,297	46,639,761
Other Changes in Net Assets								
Net Amount Contributed	-	-	3,017,291	2,485,884	633,149	2,617,740	55,114	8,809,178
Income Distributions to Beneficiaries	(84)	(13,892)	(7,841,992)	(10,100,523)	(7,497,839)	(8,544,439)	(1,294,706)	(35,293,475)
Increase in Net Assets	1	9,401	6,631,752	6,346,854	730,056	5,895,695	541,705	20,155,464
Net Assets - June 30, 2008	5,151	624,156	167,539,978	221,481,049	175,638,292	187,016,887	28,575,196	780,880,709
Net Assets - June 30, 2009	$ 5,152	$ 633,557	$ 174,171,730	$ 227,827,903	$ 176,368,348	$ 192,912,582	$ 29,116,901	$ 801,036,173

NOTE 1. DESCRIPTION OF FUNDS AND SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF FUNDS

The Permanent Funds of the State of Washington 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 School Permanent Fund, the Normal School Permanent Fund, the Common School Permanent Fund, the Scientific School Permanent Fund, and the State University Permanent Fund. Originally, land was granted to the State by the federal government at statehood to establish these permanent funds. The Permanent Funds consist of proceeds from sales of these lands and related natural resources. The proceeds from these sales are deposited by the Department of Natural Resources in each respective Permanent Fund account for investment by the WSIB. The Permanent Fund known as the Millersylvania Park Permanent Fund was established in 1931 from a gift of cash and securities for the establishment, maintenance, and upkeep of the Millersylvania State Park. The American Indian Scholarship Endowment Fund was created in 1990 to help American Indian students obtain a higher education and contains both private donations and matching funds appropriated by the State.

In 2008, all of the fixed income investments held by the Permanent Funds were commingled into one fund called the Commingled Monthly Bond Fund (CMBF). The Permanent Funds hold units of shares of the CMBF. The CMBF complies with the Permissible Investments and Portfolio Constraints of the WSIB Permanent Funds investment policy.

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 and 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.

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. The Permanent Funds have no investments of any commercial or industrial organization whose fair value exceeds 5 percent of net assets. Investments are adjusted to fair value monthly. Unrealized gains and losses are included as investment income in the statement of changes in net assets.

REVENUE RECOGNITION

Interest and dividend income is 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.

WITHDRAWAL POLICY

Capital losses are deferred and amortized against future income distributions to beneficiary funds when the cumulative losses for the year exceed the expendable fund balance, net of unrealized gains and losses, as of the fiscal year end. Net capital gains for the fiscal year are retained as corpus, increasing expendable fund balance, and are used to offset potential future capital losses. This process is necessary to meet legal requirements that do not allow capital losses to erode the corpus of the invested funds. Interest earnings are distributed to beneficiary funds on a monthly basis.

SECURITIES LENDING

The Permanent Funds invest in the CMBF which holds the securities and participates in lending activities. Each Permanent Fund owns units in the CMBF 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 net assets. Liabilities resulting from these transactions are also included in the CMBF net assets. Additionally, costs associated with securities lending transactions, including broker rebates and investment management fees paid, are part of the CMBF and are not reported directly by the Permanent Funds. Securities lending income received by the CMBF during fiscal year 2009 was $2,326,369. Securities lending expenses during the fiscal year totaled $1,239,928.

As of June 30, 2009, the CMBF held collateral under securities lending agreements in the following asset classes: U.S. Treasuries and Agencies 12 percent, Cash and Equivalents 33 percent, Euro CD's 24 percent, Medium Term Notes 9 percent, Repurchase Agreements 7 percent, Commercial Paper 5 percent, Asset Backed Securities 5 percent, and miscellaneous securities 5 percent.

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 and CMBF 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. WSIB operating expenses are allocated to the funds under management based on relative market values, in accordance with State statutes.

NOTE 3. DEPOSIT AND INVESTMENT RISK DISCLOSURES

CUSTODIAL CREDIT RISK – DEPOSITS

Custodial credit risk for deposits is the risk that in the event of a bank failure the Permanent Funds deposits may not be returned to it. The Permanent Funds do not have a deposit policy for custodial credit risk. As of June 30, 2009, there were no deposits with the custodial bank.

CUSTODIAL CREDIT RISK – INVESTMENTS

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the Permanent Funds will not be able to recover the value of investments that are in the possession of an outside party. The Permanent Funds do not have an investment policy specifically for custodial credit risk. The securities lending collateral balances are from securities required to be listed under GASB Statement 3 Category 3 – Uninsured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the Funds' name. (This includes the amount of any repurchase agreement that exceeds the fair value of the underlying securities).

INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Effective duration is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Effective duration uses the present value of cash flows, weighted for those flows as a percentage of the investment's full price. Increases in prevailing interest rates generally translate into decreases in fair values of those investments. The Permanent Fund's fixed income investments are to be actively managed to exceed the return of the Barclays Capital Aggregate Index, with volatility as measured by duration to be similar to or less than the index. As of June 30, 2009, the Permanent Funds', including the CMBF, durations of the various fixed income classes were within the duration targets of the Barclays Capital Aggregate Index.

Schedule 1 provides information about the interest rate risks associated with the CMBF investments as of June 30, 2009. The schedule displays various asset classes held by maturity in years, effective durations, and credit ratings. Residential mortgage backed, commercial mortgage backed, and asset backed 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. All other securities on this schedule are reported using the stated maturity date.

CREDIT RISK

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Permanent Funds' CMBF rated debt investments as of June 30, 2009, were rated by Moody's and/or an equivalent national rating organization. Investments types with multiple ratings are presented in Schedule 1 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 Permanent Funds' policy states no corporate fixed income issue'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. There was no concentration of credit risk in the CMBF that exceeded these limits as of June 30, 2009.

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. Currently, the only foreign securities held by the CMBF are traded and denominated in U.S. dollars. The Permanent Funds had no investments with foreign currency risk exposure.

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 JPMorgan to act as agent for the WSIB in securities lending transactions. As JPMorgan is the custodian bank for the WSIB, it is counterparty to securities lending transactions.

In accordance with GASB Statement 28, the CMBF reports securities lent (the underlying securities) as assets. Securities lending activity is part of the CMBF and, accordingly, is not reported directly by the Permanent Funds in the accompanying financial statements. The Permanent Funds own units in the CMBF, similar to a mutual fund. The CMBF engages in all lending activity and reports the net lending income activity within the fund as increases in the share price of the CMBF. Cash received as collateral on securities lending transactions and investments made with the cash are reported as assets with an offsetting liability. Securities lending transactions collateralized by securities the CMBF does not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities.

Fixed income securities were loaned and collateralized by the WSIB's agent with cash and U.S. government securities (exclusive of mortgage backed securities and letters of credit), and irrevocable 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 collateral held and fair value of securities on loan at June 30, 2009, was $139,081,369 and $136,196,735, respectively. As of June 30, 2009, the amounts the CMBF owed the borrowers exceeded the amounts the borrowers owed the CMBF, resulting in no credit risk exposure.

During fiscal year 2009, securities lending transactions within the CMBF could be terminated on demand by either the WSIB or the borrower. All loans held at June 30, 2009, matured overnight. Cash collateral was invested by the WSIB's agents in securities issued or guaranteed by the U.S. government, in the WSIB's short-term investment pool (average final maturity of 60 days) or term loans. 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. Accordingly, non cash collateral held under securities lending contracts with a value of $15,946,850 have not been included in the CMBF. 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. JPMorgan 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. JPMorgan'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 2009, 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, the CMBF incurred no losses during fiscal year 2009 resulting from a default by either the borrowers or the securities lending agents.

NOTE 5. DERIVATIVES

Permanent Funds are authorized to utilize various derivative financial instruments, including mortgage-backed securities, financial futures, forward contracts, interest rate and equity swaps, and options to manage its exposure to fluctuations in interest and currency rates while increasing portfolio returns. Derivative transactions involve, to varying degrees, market and credit risk. Permanent Funds mitigate market risks arising from derivative transactions by requiring collateral in cash and investments to be maintained equal to the securities positions outstanding, and thereby prohibiting the use of leverage or speculation. Credit risks arising from derivative transactions are mitigated by selecting and monitoring creditworthy counterparties and collateral issuers.

Consistent with the Permanent Funds' authority to invest in derivatives, international active equity managers may make limited investments in financial futures, forward contracts or other derivative securities to manage exposure to currency rate risk and equitize excess cash holdings. No such derivative securities were held as of June 30, 2009. Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of use and holdings of derivative securities by passive equity index fund managers is unavailable.

At June 30, 2009, the only derivative securities held directly by the Permanent Funds CMBF were collateralized mortgage obligations of $196,359,290.

NOTE 6. SUMMARY OF INVESTMENT POLICY

Under 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, 42.52 RCW, as it makes its investment decisions and seeks to meet the following investment objectives.

STRATEGIC OBJECTIVES

The Permanent Fund investments are to be managed to achieve the highest return possible consistent with the desire to emphasize high current yield to maturity opportunities and to add value through active management. The 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 (preservation of capital), and that are able to provide a stable level of income sufficient to meet each fund's constituent needs.

PERFORMANCE OBJECTIVES

The Permanent Funds' investment objectives are to emphasize stability and maximize income to support the operations of its irreducible principal. These Permanent Funds do have a small equity allocation which incorporates limited exposure to portfolio growth. Within the required accounting guidelines, the Funds' portfolio is to be managed, so that its individual performance meets or exceeds the return of its specific benchmark with a volatility of returns that, over time, is similar to or less than the benchmarks for a similar level of returns. For the Permanent Funds, which have both equity and fixed income holdings, the performance benchmark shall be a combination of the Dow Jones U.S. Total Stock Market Index and the Barclay's Capital Aggregate Index, weighted by the exposure the fund has to each asset class.

The WSIB will measure both the book value income return and the marked-to-market total rate of return on the fund.

RISK TOLERANCE

Risk will be managed in a prudent manner. Since the stakeholder only receives the current income and net capital appreciation of the assets, Permanent 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.110 and RCW 43.33A.140, which state, 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 issue'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 funds' fair value at any time (RCW 43.33A.140).

PERMISSIBLE INVESTMENTS

- Any WSIB managed fund that meets a fund's investment objectives and its permissible investment constraints.
- U.S. and non-U.S. public equity.
- Investment Grade Fixed Income – defined using the method employed by the Lehman Brothers 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

- U.S. Treasuries and Government Agencies
- Credit Bonds
- Mortgage Backed Securities

- Asset Backed Securities
- Commercial Backed Mortgage Securities
- Convertible Securities
- Eurodollar Bonds
- Non-U.S. Dollar Bonds
- Other fixed income segments and instruments may be added from time to time as they are developed or deemed appropriate

SECTOR ALLOCATIONS

Portfolio allocations are to be managed with 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, as soon as it is practical.

TARGET ALLOCATIONS FOR THE FIXED INCOME SECTORS

U.S. Treasuries and Government Agencies (The policy calls this 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 20 percent of the duration of the portfolio's performance benchmark, the Barclays Capital Aggregate Index.

SCHEDULE 1: COMMINGLED MONTHLY BOND FUND (CMBF) SCHEDULE OF NET ASSET VALUE

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
Residential Mortgage Backed	$ 197,821,961	$ 3,390,886	$ 80,372,337	$ 92,167,528	$ 21,891,210	4.55	AAA
Commercial Mortgage Backed Securities	25,906,472	-	6,984,248	18,922,224	-	4.54	AAA
Corporate Bonds - Domestic	196,070,401	17,050,420	42,529,858	107,485,433	29,004,690	6.12	See Below
Corporate Bonds - Foreign (USD)	130,150,852	22,143,680	43,900,792	57,945,112	6,161,268	3.99	See Below
Government Securities-Domestic:							
U.S. Government Treasuries and Agencies	62,851,480	-	17,469,510	45,381,970	-	5.25	AAA
Treasury Inflation Protected Securities	97,738,806	57,477,355	24,355,426	15,906,025	-	0.48	AAA
	710,539,972	$ 100,062,341	$ 215,612,171	$ 337,808,292	$ 57,057,168		
Money Market Funds	83,905,194						
Collateral Held Under Securities Lending Agreements	123,584,519						
Total Commingled Bond Fund Investments	918,029,685						
Accruals and Pending Transactions	(1,722,201)						
Obligations Under Securities Lending Agreements	(123,584,519)						
CMBF Net Asset Value - June 30, 2009	$ 792,722,965						

Credit Rating (Moody's)	Corporate Bonds Domestic	Corporate Bonds Foreign (USD)	Total
AAA	$ -	$ 36,577,609	$ 36,577,609
Aa1	-	5,114,900	5,114,900
Aa2	-	17,769,498	17,769,498
Aa3	10,360,608	7,008,330	17,368,938
A1	31,245,140	20,049,548	51,294,688
A2	57,949,251	5,043,650	62,992,901
A3	24,412,483	16,760,674	41,173,157
Baa1	25,377,773	9,777,516	35,155,289
Baa2	41,760,515	7,107,174	48,867,689
Baa3	4,964,631	4,941,953	9,906,584
	$ 196,070,401	$ 130,150,852	$ 326,221,253

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INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF THE WASHINGTON STATE INVESTMENT BOARD

OLYMPIA, WASHINGTON

We have audited the accompanying statement of net assets for the Other Funds (Emergency Reserve, Budget Stabilization, Reclamation Revolving, Game & Special Wildlife, Pension Stabilization, Health Insurance, and Radiation Perpetual) of the State of Washington as managed by the Washington State Investment Board ("the Other Funds") as of June 30, 2009, and the related statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Washington State Investment Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to in the first paragraph present only the investment activity of the Other Funds as managed by the Washington State Investment Board. The financial statements do not purport to, and do not, present the financial activity of the Trust Funds of other state agencies. Further, they do not purport to, and do not, present the financial activity of the Washington State Investment Board or of the State of Washington.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the net assets of the Other Funds as of June 30, 2009, and the change in net assets for the year then ended in conformity with accounting principles generally accepted in the United States.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Other Funds. Management's Discussion and Analysis preceding the financial statements is presented for purposes of additional analysis and is not a required part of the financial statements referred to in the first paragraph. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. The introduction section of the annual report has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

/S/ PETERSON SULLIVAN LLP

October 28, 2009

Management Discussion & Analysis

Management's Discussion and Analysis for the Other Funds of the State of Washington, managed by the Washington State Investment Board (WSIB), is presented as an introduction to the financial statements and 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 State of Washington Departments. This section of the report represents only the Other Funds portion.

Following this section of the report are the financial statements and footnotes. The Statement of Net Assets provides information on the types of investments and the liabilities of the Other Funds. This information is summarized in Table 1. Table 1 also compares the asset, liability, and net asset balances at June 30, 2009, with those at June 30, 2008. The Statement of Changes in Net Assets provides information on investment performance and other increases and decreases in the net assets of the Other Funds for the year ended June 30, 2009. This information is summarized in Table 2. Table 2 also compares the financial activities of the Other Funds for the year ended June 30, 2009, with those of the year ended June 30, 2008. 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 Other Funds.

As shown in Table 1, the net assets of the Other Funds decreased by $(547.3) million during the fiscal year ended June 30, 2009. Distributions to beneficiary funds resulted in a decrease in net assets of $(555.1) million. Net investment income was received and reinvested into money market securities and amounted to $7.8 million for the fiscal year ended June 30, 2009.

The fair value of Other Funds assets is minimally impacted by the returns of the various capital markets within which the WSIB is legislatively allowed to invest. The majority of the Other Fund investments consist of money market instruments whose value has not been impacted by the current financial market volatility.

The following summarizes the changes within each major grouping listed on Table 1:

- Money market funds decreased by 82.4 percent. The majority of this decline resulted from withdrawals by beneficiary funds. In addition, investment earnings reinvested in the funds declined due to the significant decrease in invested balances and falling short term interest rates.
- Fixed income securities decreased by 31.4 percent due to maturities of municipal bonds, the proceeds of which were reinvested in money market funds.
- Total receivables decreased by 94.8 percent due to the reduction in invested balances resulting from distributions to beneficiaries.

As shown in Table 2, net investment earnings decreased by 74.7 percent due to large reductions in invested balances through withdrawals and substantial decreases in short term interest rates throughout the year. The net amount of withdrawals increased by 347.6 percent due to the current economic situation. Substantial withdrawals were made by the Emergency Reserve Fund, the Budget Stabilization Fund, and the Pension Stabilization Fund.

Table 1 - Summarized Net Assets	2009	2008	Dollar Change	Percent Change
Money Market Funds	$116,335,441	$662,353,124	$(546,017,683)	-82.4%
Fixed Income Investments	103,313	150,638	(47,325)	-31.4%
Total Investments	**116,438,754**	**662,503,762**	**(546,065,008)**	**-82.4%**
Total Receivables	67,800	1,299,005	(1,231,205)	-94.8%
Net Assets	$116,506,554	$663,802,767	$(547,296,213)	-82.4%

Table 2 - Summarized Changes in Net Assets	2009	2008	Dollar Change	Percent Change
Net Assets - Beginning	$663,802,767	$757,012,609	$(93,209,842)	-12.3%
Net Investment Income				
Investment Income	7,806,054	30,808,607	(23,002,553)	-74.7%
Net Amount Withdrawn	(555,102,267)	(124,018,449)	(431,083,818)	347.6%
Net Assets - Ending	**$116,506,554**	**$663,802,767**	**$(547,296,213)**	**-82.4%**

OTHER FUNDS STATEMENT OF NET ASSETS - JUNE 30, 2009
SEE NOTES TO FINANCIAL STATEMENTS

	Emergency Reserve	Budget Stabilization	Reclamation Revolving	Game & Special Wildlife	Pension Stabilization	Health Insurance	Radiation Perpetual	Total	Percent of Total
ASSETS									
Investments:									
Money Market Funds	$ -	$ 21,369,855	$ 365	$ 6,543,166	$ 34,120	$ 88,057,809	$ 330,126	$ 116,335,441	99.9%
Municipal Bonds	-	-	103,313	-	-	-	-	103,313	0.1%
Total Investments	-	21,369,855	103,678	6,543,166	34,120	88,057,809	330,126	116,438,754	100.0%
Interest Receivable	-	47,802	2,628	1,196	15	16,099	60	67,800	
NET ASSETS	$ -	$ 21,417,657	$ 106,306	$ 6,544,362	$ 34,135	$ 88,073,908	$ 330,186	$ 116,506,554	

OTHER FUNDS STATEMENT OF CHANGES IN NET ASSETS - YEAR ENDED JUNE 30, 2008
SEE NOTES TO FINANCIAL STATEMENTS

	Emergency Reserve	Budget Stabilization	Reclamation Revolving	Game & Special Wildlife	Pension Stabilization	Health Insurance	Radiation Perpetual	Total
Net Investment Income								
Interest Income	$ -	$ 3,217,570	$ 6,483	$ 81,803	$ 3,695,127	$ 927,192	$ 3,475	$ 7,931,650
Unrealized Market Gains	-	-	1,174	-	-	-	-	1,174
Less:								
Investment Expenses	-	(6,206)	(3)	(159)	(4,750)	(1,785)	(7)	(12,910)
WSIB Operating Expenses	-	(55,132)	(32)	(1,389)	(41,400)	(15,848)	(59)	(113,860)
Net Investment Income	-	3,156,232	7,622	80,255	3,648,977	909,559	3,409	7,806,054
Transfer to Other Funds	(303,209,996)	303,209,996	-	-	-	-	-	-
Net Amount Contributed (Withdrawn)	-	(284,948,571)	(105,828)	(1,298,611)	(268,765,164)	15,848	59	(555,102,267)
Increase (Decrease) in Net Assets	(303,209,996)	21,417,657	(98,206)	(1,218,356)	(265,116,187)	925,407	3,468	(547,296,213)
Net Assets - June 30, 2008	303,209,996	-	204,512	7,762,718	265,150,322	87,148,501	326,718	663,802,767
Net Assets - June 30, 2009	$ -	$ 21,417,657	$ 106,306	$ 6,544,362	$ 34,135	$ 88,073,908	$ 330,186	$ 116,506,554

Notes to Financial Statements

NOTE 1. DESCRIPTION OF FUNDS AND SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF FUNDS

The Other Funds of the State of Washington consist of: the Emergency Reserve, Budget Stabilization, Reclamation Revolving, Game and Special Wildlife, Pension Stabilization, Health Insurance, and the Radiation Perpetual funds. These funds were created by Washington State legislation over the years to fund various mandates and can be liquidated as needed to fund those mandates. These funds are invested by the WSIB until they are completely liquidated or legislation closes the funds. The financial statements present only the activity of the Other Funds as managed by the WSIB. The WSIB has exclusive control of the investments held by the Other Funds. The financial statements do not present the financial position and 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.

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. The Other Funds have no investments of any commercial or industrial organization whose fair value exceeds 5 percent of each plan's net assets. Investments are adjusted to fair values monthly. Unrealized gains and losses are included as investment income in the statement of changes in net assets.

REVENUE RECOGNITION

Interest and dividend income is 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 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 Other Fund 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. WSIB operating expenses are allocated to the funds under management based on relative market values, in accordance with State statutes.

NOTE 3. DEPOSIT AND INVESTMENT RISK DISCLOSURES

CUSTODIAL CREDIT RISK – DEPOSITS

Custodial credit risk for deposits is the risk that in the event of a bank failure the Other Funds' deposits may not be returned to it. The Other Funds do not have a deposit policy for custodial credit risk. As of June 30, 2009, there were no deposits with the custodial bank.

CUSTODIAL CREDIT RISK – INVESTMENTS

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the Other Funds will not be able to recover the value of investments that are in the possession of an outside party. The Other Funds do not have an investment policy specifically for custodial credit risk.

INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Effective duration is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Effective duration uses the present value of cash flows, weighted for those flows as a percentage of the investment's full price. Increases in prevailing interest rates generally translate into decreases in fair values of those investments. The Other Funds' fixed income investments are to be actively managed to exceed the return of the Lehman Aggregate Index, with volatility as measured by duration to be similar to or less than the index.

Schedule 1 provides information about the interest rate risks associated with the Other Funds' investments as of June 30, 2009. The schedule displays various asset classes held by maturity in years, effective durations and credit ratings.

CREDIT RISK

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

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 Other Funds have a formal investment policy that limits the amount these funds may invest in any one issuer to no more than 3 percent. At June 30, 2009, the Other Funds have no investment of any commercial or industrial organization whose fair value exceeds 3 percent of net assets, except for the Reclamation Revolving Fund. The Reclamation Revolving fund was created prior to this investment policy. The Reclamation Revolving Funds' municipal bond investments are approximately 42 percent in Chelan County, Entiat Irrigation District, 46 percent in Chelan County, Lower Stemilt Irrigation District, and 12 percent in Okanogan County, Aeneas Lake Irrigation District.

HIGHLY SENSITIVE INVESTMENTS

There are no investments that are highly subject to interest rate changes as of June 30, 2009.

FOREIGN CURRENCY RISK

The Other Funds do not have a policy regarding foreign currency risk, which is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. There was no foreign investment risk exposure at June 30, 2009.

NOTE 4. INVESTMENT POLICY

Under RCW 43.33A.030, Trusteeship of the Other 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, RCW 42.52, as it makes its investment decisions and seeks to meet the following investment objectives.

STRATEGIC OBJECTIVES

These Funds' investments are to be managed to achieve the highest return possible consistent with the desire to emphasize current income. The objectives include:

- Safety of Principal
- Current Income
- Preservation of the Public's Trust

PERFORMANCE OBJECTIVES

These Funds' investments are to emphasize stability and maximize income to support the operations of each program.

RISK TOLERANCE

Risk will be managed in a prudent manner. The funds have a below average ability to tolerate volatility.

PERMISSIBLE INVESTMENTS

- Government agencies and U.S. Treasuries
- Short-term Investment Funds (STIF) that invest strictly in U.S. Government or Government Agency instruments, including Repurchase Agreements for U.S. Government and Agency instruments. The Pension Stabilization Fund is currently invested in the Blackrock TempCash short-term investment funds which hold various top rated money market instruments, including repurchase agreements.
- Cash collateral for security lending and collateral for repurchase agreements is restricted to U.S. Government and Government Agency securities.

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.110 and RCW 43.33A.140, which state, 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."

SCHEDULE 1: INVESTMENT MATURITIES AND CREDIT RATINGS

Investment Type	Total Fair Value	Less than 1 year	1-5 years	6-10 years	More than 10 years	Effective Duration	Credit Rating
Municipal Bonds	$ 103,313	$ 57,872	$ 45,441	$ -	$ -	1.17	AAA
Money Market Funds	116,335,441	N/A	N/A	N/A	N/A	N/A	N/A
Total Investments	$ 116,438,754	$ 57,872	$ 45,441	$ -	$ -		

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INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF THE WASHINGTON STATE INVESTMENT BOARD

OLYMPIA, WASHINGTON

We have audited the accompanying statement of net assets for the Guaranteed Education Tuition Fund of the State of Washington as managed by the Washington State Investment Board ("the Guaranteed Education Tuition Fund") as of June 30, 2009, and the related statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Washington State Investment Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to in the first paragraph present only the investment activity of the Guaranteed Education Tuition Fund as managed by the Washington State Investment Board. The financial statements do not purport to, and do not, present the financial activity of the Washington Guaranteed Education Tuition Program. Further, they do not purport to, and do not, present the financial activity of the Washington State Investment Board or of the State of Washington.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the net assets of the Guaranteed Education Tuition Fund as of June 30, 2009, and the changes in net assets for the year then ended in conformity with accounting principles generally accepted in the United States.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Guaranteed Education Tuition Fund. Management's Discussion and Analysis preceding the financial statements is presented for purposes of additional analysis and is not a required part of the financial statements referred to in the first paragraph. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. The introduction section of the annual report has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

/S/ PETERSON SULLIVAN LLP

October 28, 2009

Management Discussion & Analysis

Management's Discussion and Analysis for the Guaranteed Education Tuition Fund (GET), managed by the Washington State Investment Board (WSIB), is presented as an introduction to the financial statements and 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 State of Washington departments. This section of the report represents only the GET Fund portion.

Following this section of the report are the financial statements and footnotes. The Statement of Net Assets provides information on the types of investments and the liabilities of GET. This information is summarized in Table 1. Table 1 also compares the asset, liability, and net asset balances at June 30, 2009, with those at June 30, 2008. The Statement of Changes in Net Assets provides information on investment performance and other increases and decreases in the net assets of GET for the year ended June 30, 2009. This information is summarized in Table 2. Table 2 also compares the financial activities of GET for the year ended June 30, 2009, with those of the year ended June 30, 2008. 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 GET.

As shown in Table 1, the net assets of the GET Program increased by $26.8 million during the fiscal year ended June 30, 2009. Contributions to the GET Program during the year increased net assets by $177.5 million. Unrealized losses decreased net assets in the fixed income portfolio by $(17.1) million and the equity portfolio by $(149.0) million. Net investment income received and reinvested in the fund increased net assets by $15.4 million during the fiscal year ended June 30, 2009.

The following summarizes the changes within each grouping listed within Table 1:

- Money market funds increased by $38.9 million. Reinvestment of net investment income increased this asset class by $13.5 million. Contributions from GET participants were reinvested in money market funds in the amount of $23.5 million. The remaining change was due to transfers from other asset classes. Due to the current market volatility, cash in the GET Program has been cautiously reinvested longer term, waiting for strategic market opportunities, resulting in higher than normal cash balances.
- Fixed income investments declined mainly due to unrealized losses in the portfolio. All fixed income instruments are invested in Treasury Inflation Protected Securities (TIPS). The value of TIPS is directly impacted by changes in the Consumer Price Index (CPI). Due to slowing economic activity, the CPI fell substantially which has reduced the value of the TIPS holdings.
- Equity investments increased by $6.9 million. The majority of the contributions received from the GET Program were reinvested in this asset class for a total of $154.0 million. These equity investments lost $149.0 million of value due to the volatile global equity markets. Income distributed and reinvested in this asset class totaled $1.9 million.
- Net receivables and payables changed drastically due to securities lending activities. Beginning in September 2008, due to the volatility in the public markets, lending activities increased substantially. Get owns TIPS which are currently in high demand.

Table 1 - Summarized Net Assets	2009	2008	Dollar Change	Percent Change
Money Market Funds	$50,441,769	$11,577,187	$38,864,582	335.7%
Fixed Income Investments	412,852,609	431,605,831	(18,753,222)	-4.3%
Equity Investments	599,657,714	592,798,742	6,858,972	1.2%
Total Investments	**1,062,952,092**	**1,035,981,760**	**26,970,332**	**2.6%**
Collateral Held Under Securities Lending Agreements	359,320,484	334,677,294	24,643,190	7.4%
Interest Receivable	3,603,488	4,019,518	(416,030)	-10.4%
Total Assets	**1,425,876,064**	**1,374,678,572**	**51,197,492**	**3.7%**
Obligations Under Securities Lending Agreements and Miscellaneous Payables	359,360,783	334,991,458	24,369,325	7.3%
Net Assets	**$1,066,515,281**	**$1,039,687,114**	**$26,828,167**	**2.6%**

Table 2 - Summarized Changes in Net Assets	2009	2008	Dollar Change	Percent Change
Net Investment Income				
Interest, Dividends and Other Investment Income	$20,013,996	$35,626,391	$(15,612,395)	-43.8%
Net Capital Gains (Losses)	(1,816,838)	84,816,342	(86,633,180)	-102.1%
Unrealized Losses	(166,058,979)	(118,092,121)	(47,966,858)	40.6%
Less:				
Securities Lending Rebates and Fees	(2,643,416)	(11,363,150)	8,719,734	-76.7%
Other Fees	(212,643)	(170,871)	(41,772)	24.4%
Net Investment Loss	**(150,717,880)**	**(9,183,409)**	**(141,534,471)**	**1541.2%**
Net Amount Contributed	177,546,047	112,910,511	64,635,536	57.2%
Net Assets - Beginning	1,039,687,114	935,960,012	103,727,102	11.1%
Net Assets - Ending	**$1,066,515,281**	**$1,039,687,114**	**$26,828,167**	**2.6%**

As shown in Table 2, net investment income decreased by $(141.5) million during the fiscal year ended June 30, 2009. Interest rates on TIPS are directly affected by changes in the CPI. Interest income on TIPS decreased by $(15.6) million due to the decrease in the CPI as explained above. Realized and unrealized losses decreased by $(134.6) million from the previous year due solely to the volatile global markets. Rebates paid on securities lending transactions decreased substantially as the spreads paid to brokers narrowed drastically during this time period, resulting in lower fees and higher income in the GET Program in the amount of $8.7 million. Contributions from GET participants increased by $64.6 million due to future increases in the cost of educational units announced by the GET Program. Participants took advantage of the lower tuition unit purchase price in anticipation of rate increases.

WSIB staff rebalances the GET Funds' assets between asset classes as markets move 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 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. The WSIB, after discussions with the GET Committee, makes the asset allocation decisions for GET assets.

GET FUND STATEMENT OF NET ASSETS - JUNE 30, 2009

SEE NOTES TO FINANCIAL STATEMENTS

		Percent
ASSETS		
Investments:		
Money Market Funds	$ 50,441,769	4.7%
Treasury Inflation Protected Securities	412,852,609	38.8%
Commingled Equity Index Funds - Domestic	400,277,509	37.7%
Commingled Equity Index Funds - Foreign	199,380,205	18.8%
Total Investments	1,062,952,092	100.0%
Interest Receivable	3,603,488	
Collateral Held Under Securities Lending Agreements	359,320,484	
Total Assets	1,425,876,064	
LIABILITIES		
Obligations Under Securities Lending Agreements	359,320,484	
Accounts Payable	40,299	
Total Liabilities	359,360,783	
NET ASSETS	$ 1,066,515,281	

GET FUND STATEMENT OF CHANGES IN NET ASSETS - YEAR ENDED JUNE 30, 2009

SEE NOTES TO FINANCIAL STATEMENTS

Net Investment Income	
Investment Income	
Interest, Dividends and Other Investment Income	$ 14,327,180
Securities Lending Income	5,686,816
Realized Capital Gains	2,031,958
Realized Capital Losses	(3,848,796)
Unrealized Losses	(166,058,979)
Less:	
Securities Lending Rebates and Fees	(2,643,416)
Investment Expenses	(49,673)
WSIB Operating Expenses	(162,970)
Net Investment Loss	(150,717,880)
Net Amount Contributed	177,546,047
Increase in Net Assets	26,828,167
Net Assets - June 30, 2008	1,039,687,114
Net Assets - June 30, 2009	$ 1,066,515,281

NOTE 1. DESCRIPTION OF FUND AND SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF FUND

Guaranteed Education Tuition Fund (GET) consists of contributions from participants planning on attending advanced education programs in the State of Washington. 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 GET as managed by the WSIB. The WSIB has exclusive control of the investments held for the GET Program. The financial statements do not present the financial position and results of operations of the WSIB or the Washington Guaranteed Education Tuition Program.

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.

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. GET has no investments of any commercial or industrial organization whose fair value exceeds 5 percent of net assets. Investments are adjusted to fair values monthly. Unrealized gains and losses are included as investment income in the statement of changes in net assets.

REVENUE RECOGNITION

Interest and dividend income is 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

GET records collateral received under securities lending agreements where GET has the ability to spend, pledge or sell the collateral without borrower default. Liabilities resulting from these transactions are also recorded. Additionally, costs associated with securities lending transactions, including broker commissions paid and lending fees paid to the custodian bank, are reported in the accompanying financial statements. The statement of net assets does not include detailed holdings of securities lending collateral by investment classification.

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 GET'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. WSIB operating expenses are allocated to the funds under management based on relative market values, in accordance with State statutes.

NOTE 3. DEPOSIT AND INVESTMENT RISK DISCLOSURES

CUSTODIAL CREDIT RISK – DEPOSITS

Custodial credit risk for deposits is the risk that in the event of a bank failure GET deposits may not be returned to it. GET does not have a deposit policy for custodial credit risk. As of June 30, 2009, there were no deposits with the custodial bank.

CUSTODIAL CREDIT RISK – INVESTMENTS

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the GET Funds will not be able to recover the value of investments that are in the possession of an outside party. The GET Funds do not have an investment policy specifically for custodial credit risk. The securities lending collateral balances are from securities required to be listed under GASB Statement 3 Category 3 – Uninsured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the GET's name. (This includes the amount of any repurchase agreement that exceeds the fair value of the underlying securities).

INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Effective duration is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Effective duration uses the present value of cash flows, weighted for those flows as a percentage of the investment's full price. Increases in prevailing interest rates generally translate into decreases in fair values of those investments. GET's fixed income investments are to be actively managed to exceed the return of the Lehman Custom TIPS Index, with volatility as measured by duration to be similar to or less than the index. As of June 30, 2009, the GET Fund's durations of the various fixed income classes were within the duration targets of the Lehman Custom TIPS Index. Schedule 1 provides information about the interest rate risks associated with GET investments as of June 30, 2009. The schedule displays various asset classes held by maturity in years, effective durations and credit ratings.

CREDIT RISK

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. GET policy states no corporate fixed income issue's 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, 2009.

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. GET has no formal policy to limit foreign currency risk. The only security held by the GET Fund with foreign currency risk at June 30, 2009, consists of $199,380,205 invested in an international commingled equity index fund. Currency exposure by country for this commingled fund is presented in Schedule 2.

NOTE 4. SECURITIES LENDING

Washington State law and WSIB policy permit GET to participate in securities lending programs to augment investment income. The WSIB has entered into an agreement with JPMorgan to act as agent for the WSIB in securities lending transactions. As JPMorgan is the custodian bank for the WSIB, it is counterparty to securities lending transactions.

In accordance with GASB Statement 28, GET reports securities lent (the underlying securities) as assets in the statement of net assets. Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets. Securities received as collateral are reported as assets if GET has the ability to pledge or sell them without a borrower default. Liabilities resulting from these transactions are also reported in the statement of net assets. Securities lending transactions collateralized by securities that GET does not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities.

Fixed income securities were loaned and collateralized by the GET's agent with cash and U.S. government securities (exclusive of mortgage backed securities and letters of credit), and irrevocable 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 collateral held and fair value of securities on loan at June 30, 2009, was $404,377,387 and $395,990,348, respectively. As of June 30, 2009, the amount the GET Fund owed the borrowers exceeded the amounts the borrowers owed the GET Fund, resulting in no credit risk exposure.

As of June 30, 2009, the GET held the following securities as collateral (in thousands):

Asset Backed Securities	$19,859
Cash and Cash Equivalents	228,797
U.S. Government Securities	48,508
Commercial Paper	19,942
Miscellaneous	23,589
Medium Term Notes	35,044
Repurchase Agreements	28,638
Total Collateral Held	**$404,377**

During fiscal year 2009, securities lending transactions could be terminated on demand by either GET or the borrower. All loans held at June 30, 2009, matured overnight.

Cash collateral was invested by GET's agent in securities issued or guaranteed by the U.S. government, in the WSIB's short-term investment pool (average final maturity of 60 days) or term loans. 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. Accordingly, non cash collateral held under securities lending contracts with a value of $45,056,903 has not been included in the statement of net assets. 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. JP Morgan 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. JPMorgan'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 2009, 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, GET incurred no losses during fiscal year 2009 resulting from a default by either the borrowers or the securities lending agents.

NOTE 5. SUMMARY OF INVESTMENT POLICY

Under RCW 43.33A.030, Trusteeship of GET 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, 42.52 RCW, as it makes its investment decisions and seeks to meet the following investment objectives.

In accordance with RCW 43.33.110, 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 ten-year period, at a prudent level risk.
- 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.
- No corporate fixed income issue'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).
- Diversify the assets at a prudent level to moderate fluctuations in the fair value of the program.

PERMISSIBLE INVESTMENTS

- International Equity
- U.S. Equity
- Inflation Indexed Bonds
- U.S. Treasuries and Government Obligations
- Credit Bonds
- WSIB Bond Market Fund
- Cash equivalent funds managed on behalf of the WSIB

ASSET ALLOCATION

The asset allocation strategy for the GET program (within a 5 percent tolerance) are as follows:

Cash	0.0%
Inflation Indexed Bonds – Fixed Income	40.0%
U.S. Equity	40.0%
Non U.S. Equity	20.0%

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
Treasury Inflation Protected Securities	$ 412,852,609	$ 45,115,164	$ 152,465,265	$ 109,602,442	$ 105,669,738	3.41	AAA

Investments Not Required to be Categorized Under GASB Statement No. 3:	
Commingled Equity Index Funds-Domestic	400,277,509
Commingled Equity Index Funds-Foreign	199,380,205
Money Market Funds	50,441,769
Total Investments Not Categorized	650,099,483
Total Investments	$ 1,062,952,092

SCHEDULE 2: FOREIGN CURRENCY EXPOSURE BY COUNTRY

Foreign Country and Currency Denomination	Commingled Equity Index - Foreign	Percent of Total Investments
Australia-Dollar	$ 10,472,816	1.0%
Belgium-Euro	1,413,781	0.1%
Brazil-Real	5,865,062	0.6%
Canada-Dollar	14,203,687	1.3%
Chinese-Yuan	7,989,349	0.8%
Denmark-Krone	1,465,930	0.1%
Finland-Euro	1,873,153	0.2%
France -Euro	13,796,651	1.3%
Germany-Euro	10,697,531	1.0%
Hong Kong-Dollar	3,431,370	0.3%
India-Ruppee	3,387,254	0.3%
Israel-Shekel	1,211,312	0.1%
Italy-Euro	4,980,370	0.5%
Japan-Yen	35,678,596	3.4%
Malaysia-Ringgit	1,273,975	0.1%
Mexico-Peso	1,744,483	0.2%
Netherlands-Euro	3,355,353	0.3%
Norway - Krone	1,236,995	0.1%
Russia-Ruble	2,290,710	0.2%
Singapore-Dollar	2,075,318	0.2%
South Africa-Rand	3,249,323	0.3%
South Korea-Won	5,302,734	0.5%
Spain-Euro	6,009,418	0.6%
Sweden-Krona	3,616,797	0.3%
Switzerland-Franc	10,081,822	0.9%
Taiwanese-Dollar	5,315,584	0.5%
United Kingdom-GP Pounds	29,812,464	2.8%
Other - Miscellaneous	7,548,367	0.7%
	$ 199,380,205	18.7%

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INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF THE WASHINGTON STATE INVESTMENT BOARD

OLYMPIA, WASHINGTON

We have audited the accompanying statement of net assets for the Developmental Disabilities Endowment Trust Fund of the State of Washington as managed by the Washington State Investment Board ("the Developmental Disabilities Endowment Trust Fund") as of June 30, 2009, and the related statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Washington State Investment Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to in the first paragraph present only the investment activity of the Developmental Disabilities Endowment Trust Fund as managed by the Washington State Investment Board. The financial statements do not purport to, and do not, present the financial activity of the Trust Funds of other state agencies. Further, they do not purport to, and do not, present the financial activity of the Washington State Investment Board or of the State of Washington.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the net assets of the Developmental Disabilities Endowment Trust Fund as of June 30, 2009, and the changes in net assets for the year then ended in conformity with accounting principles generally accepted in the United States.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Developmental Disabilities Endowment Trust Fund. Management's Discussion and Analysis preceding the financial statements is presented for purposes of additional analysis and is not a required part of the financial statements referred to in the first paragraph. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. The introduction section of the annual report has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

/S/ PETERSON SULLIVAN LLP

October 28, 2009

Management's Discussion and Analysis for the Developmental Disabilities Endowment Trust Fund (DDEF) of the State of Washington, managed by the Washington State Investment Board (WSIB), is presented as an introduction to the financial statements and 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 State of Washington departments. This section of the report covers the DDEF funds only.

Following this section of the report are the financial statements and footnotes. The Statement of Net Assets provides information on the types of investments, assets, and liabilities of the DDEF as of June 30, 2009. This information is summarized in Table 1. Table 1 also compares the asset, liability, and net asset balances at June 30, 2009, with those at June 30, 2008. The Statement of Changes in Net Assets provides information on investment performance and other increases and decreases in the net assets of the DDEF for the year ended June 30, 2009. This information is summarized in Table 2. Table 2 also compares the financial activities of DDEF for the year ended June 30, 2009, with those of the year ended June 30, 2008. 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 DDEF.

As shown in Table 1, net assets under management within DDEF increased by $0.6 million during the fiscal year ended June 30, 2009. The DDEF consists of a state trust fund and a private trust fund. The increase in net assets was primarily due to the contributions to the private trust fund of $2.0 million. This was largely offset by unrealized losses of $1.8 million, the majority of which were sustained in the private trust fund which has a higher risk profile. Net investment income received increased net assets for the funds and amounted to $0.4 million during the year ended June 30, 2009.

The following summarizes the changes within each grouping listed within Table 1:

- Money market funds increased by $0.4 million. This asset class increased by $0.1 million from reinvestment of investment earnings and $0.3 million of transfers from fixed income and balanced fund accounts. Cash balances remain higher than prior year because the WSIB has decided, in conjunction with the DDEF Board, to cautiously invest funds longer term due to the current market volatility.
- Fixed income investments remained relatively unchanged. No additional funds were added to this asset class and the market for the year ended June 30, 2009 was relatively stable with minimal market fluctuations.
- Balanced mutual funds received $1.7 million of contributions to invest and incurred a market loss of $1.5 million. Additional income reinvested in the fund totaled $0.3 million for a total net increase of $0.5 million in this asset class.
- Equity investments lost $0.3 million of market value due to the current economic environment and accounted for the majority of the change in this asset class.
- Cash collateral held under securities lending contracts and the related obligation increased by $2.3 million due to securities lending activities. Beginning in September 2008, due to the volatility in the public markets, lending activities increased substantially. The DDEF owns Treasury Inflation Protected Securities (TIPS) which are in high demand in the current lending environment.

Table 2 - Summarized Changes in Net Assets	2009	2008	Dollar Change
Net Investment Income			
Investment Income	$411,303	$589,943	$(178,640)
Unrealized Losses	(1,834,261)	(544,058)	(1,290,203)
Less:			
Investment Expenses	(2,385)	(54,835)	52,450
Net Investment Loss	**(1,425,343)**	**(8,950)**	**(1,416,393)**
Net Amount Contributed	1,986,205	1,972,483	13,722
Net Assets - Beginning	17,877,697	15,914,164	1,963,533
Net Assets - Ending	**$18,438,559**	**$17,877,697**	**$560,862**

Table 1 - Summarized Net Assets	2009	2008	Dollar Change	Percent Change
Money Market Funds	$535,620	$105,325	$430,295	408.5%
Fixed Income Investments	6,688,838	6,744,117	(55,279)	-0.8%
Balanced Funds	10,211,728	9,760,904	450,824	4.6%
Equity Investments	957,931	1,221,796	(263,865)	-21.6%
Total Investments	**18,394,117**	**17,832,142**	**561,975**	**3.2%**
Collateral Held Under Securities Lending Agreements	3,007,409	733,892	2,273,517	309.8%
Earnings Receivable	44,442	48,065	(3,623)	-7.5%
Total Assets	**21,445,968**	**18,614,099**	**2,831,869**	**15.2%**
Obligations Under Securities Lending Agreements and Miscellaneous Payables	3,007,409	736,402	2,271,007	308.4%
Net Assets	**$18,438,559**	**$17,877,697**	**$560,862**	**3.1%**

As shown in Table 2, net investment earnings decreased substantially from the prior year due almost entirely to reductions in the market value of the underlying equity securities. Interest rates on TIPS are directly correlated to changes in the Consumer Price Index (CPI). The CPI has fallen due to the current economic situation and, accordingly, interest earnings on TIPS has as well. All other changes in investment income from the prior year are considered de minimis. The private trust fund net assets have a higher risk profile and the earnings were impacted by the negative investment performance in the equity markets.

The fair value of DDEF net assets 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. The WSIB, with concurrence from the Developmental Disabilities Life Opportunities Trust Governing Board, makes the asset allocation decisions for DDEF assets. WSIB staff rebalances the DDEF's assets between asset classes as markets move, pursuant to WSIB policy.

DDEF STATEMENT OF NET ASSETS - JUNE 30, 2008

SEE NOTES TO FINANCIAL STATEMENTS

	Developmental Disabilities Endowment Trust Fund State	Developmental Disabilities Endowment Trust Fund Private	Total	Percent of Total
ASSETS				
Investments:				
LIQUIDITY:				
Money Market Funds	$ 276,581	$ 259,039	$ 535,620	2.9%
FIXED INCOME INVESTMENTS:				
Treasury Inflation Protected Securities	3,272,625	-	3,272,625	17.8%
Commingled Intermediate Credit	3,416,213	-	3,416,213	18.6%
BALANCED FUNDS:				
Balanced Mutual Funds - Domestic	-	10,211,728	10,211,728	55.5%
EQUITY INVESTMENTS:				
Commingled Equity Index Funds - Domestic	509,307	-	509,307	2.8%
Commingled Equity Index Funds - Foreign	448,624	-	448,624	2.4%
Total Investments	7,923,350	10,470,767	18,394,117	100.0%
Investment Earnings Receivable	44,434	8	44,442	
Collateral Held Under Securities Lending Agreements	3,007,409	-	3,007,409	
Total Assets	10,975,193	10,470,775	21,445,968	
LIABILITIES				
Obligations Under Securities Lending Agreements	3,007,409	-	3,007,409	
NET ASSETS	**$ 7,967,784**	**$ 10,470,775**	**$ 18,438,559**	

DDEF STATEMENT OF CHANGES IN NET ASSETS - YEAR ENDED JUNE 30, 2008

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	$ 120,300	$ 301,588	$ 421,888
Realized Capital Gains	2,776	-	2,776
Realized Capital Losses	(13,361)	-	(13,361)
Unrealized Gains and Losses	(283,971)	(1,550,290)	(1,834,261)
Less:			
Investment Expenses	(836)	(180)	(1,016)
WSIB Operating Expenses	(1,369)	-	(1,369)
Net Investment Loss	(176,461)	(1,248,882)	(1,425,343)
Fund Transfers	100,000	(100,000)	-
Net Amount Contributed	1,369	1,984,836	1,986,205
Increase (Decrease) in Net Assets	(75,092)	635,954	560,862
Net Assets, June 30, 2008	8,042,876	9,834,821	17,877,697
Net Assets, June 30, 2009	$ 7,967,784	$ 10,470,775	$ 18,438,559

NOTE 1. DESCRIPTION OF FUNDS AND SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF FUNDS

The Developmental Disabilities Endowment Fund (DDEF) of the State of Washington consists of two funds. The State Trust Fund was originally created from a grant by the State of Washington. The Private Trust Fund, consists of contributions by private individual participants of the program. These funds are invested by the WSIB until participants withdraw these 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 of all money 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 program.

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.

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. DDEF has no investments of any commercial or industrial organization whose fair value exceeds 5 percent of each plan's net assets. Investments are adjusted to fair values monthly. Unrealized gains and losses are included as investment income in the statement of changes in net assets.

REVENUE RECOGNITION

Interest and dividend income is 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

DDEF reports collateral received under securities lending agreements where DDEF has the ability to spend, pledge, or sell the collateral without borrower default. Liabilities resulting from these transactions are also recorded. Additionally, costs associated with securities lending transactions, including broker commissions paid and lending fees paid to the custodian bank, are reported as investment expenses in the accompanying financial statements. The statement of net assets does not include detailed holdings of securities lending collateral by investment classification.

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 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. WSIB operating expenses are allocated to the funds under management based on relative market values, in accordance with State statutes.

NOTE 3. DEPOSIT AND INVESTMENT RISK DISCLOSURES

CUSTODIAL CREDIT RISK – DEPOSITS

Custodial credit risk for deposits is the risk that in the event of a bank failure, DDEF deposits may not be returned to it. DDEF does not have a deposit policy for custodial credit risk. As of June 30, 2009, there were no deposits with the custodial bank.

CUSTODIAL CREDIT RISK – INVESTMENTS

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the DDEF will not be able to recover the value of investments that are in the possession of an outside party. The DDEF does not have an investment policy specifically for custodial credit risk. The securities lending collateral balances are from securities required to be listed under GASB Statement 3 Category 3 – Uninsured and unregistered with securities held by the counterparty, or by its trust department or agent but not in DDEF's name. (This includes the amount of any repurchase agreement that exceeds the fair value of the underlying securities).

INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Effective duration is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Effective duration uses the present value of cash flows, weighted for those flows as a percentage of the investment's full price. Increases in prevailing interest rates generally translate into decreases in fair values of those investments. DDEF's fixed income investments are to be actively managed to exceed the return of the Lehman Universal Index, with volatility as measured by duration to be similar to or less than the index. As of June 30, 2009, the duration of the fixed income classes were within the duration targets of the Lehman Intermediate Credit Index.

Schedule 1 provides information about the interest rate risks associated with DDEF investments as of June 30, 2009. The schedule displays various asset classes held by maturity in years, effective durations, and credit ratings.

CREDIT RISK

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The DDEF's rated debt investments as of June 30, 2009, 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. DDEF policy states no corporate fixed income issue's cost shall exceed 3 percent of DDEF's fair value at the time of purchase, nor shall its fair value exceed 6 percent of DDEF's fair value at any time. There was no concentration of credit risk that exceeded these limits as of June 30, 2009.

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. DDEF has no formal policy to limit foreign currency risk. The only security held by the DDEF with foreign currency risk at June 30, 2009, consists of $448,624 invested in an international commingled equity index fund.

NOTE 4. SECURITIES LENDING

Washington State law and WSIB policy permit DDEF to participate in securities lending programs to augment investment income. The WSIB has entered into an agreement with JPMorgan to act as agent for the WSIB in securities lending transactions. As JPMorgan is the custodian bank for the WSIB, it is counterparty to securities lending transactions.

In accordance with GASB Statement 28, DDEF reports securities lent (the underlying securities) as assets in the statement of net assets. Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets. Securities received as collateral are reported as assets if DDEF has the ability to pledge or sell them without a borrower default. Liabilities resulting from these transactions are also reported in the statement of net assets. Securities lending transactions collateralized by securities that DDEF does not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities.

Fixed income securities were loaned and collateralized by the DDEF's agent with cash and U.S. government securities (exclusive of mortgage backed securities and letters of credit), and irrevocable 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 collateral held and fair value of securities on loan at June 30, 2009, was $3,384,522 and $3,314,325, respectively. As of June 30, 2009, the amounts the DDEF owed the borrowers exceeded the amounts the borrowers owed the DDEF, resulting in no credit risk exposure.

As of June 30, 2009, the DDEF held the following securities as collateral (in thousands):

Asset Backed Securities	$166
Cash and Equivalents	1,915
U.S. Government Securities	406
Commercial Paper	167
Miscellaneous	197
Medium Term Notes	293
Repurchase Agreements	240
Total Collateral Held	**$3,384**

During fiscal year 2009, securities lending transactions could be terminated on demand by either DDEF or the borrower. All loans held at June 30, 2009, matured overnight.

Cash collateral was invested by DDEF's agent in securities issued or guaranteed by the U.S. government, in the WSIB's short-term investment pool (average final maturity of 60 days) or term loans. 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. Accordingly, non cash collateral held under securities lending contracts with a value of $377,113 has not been included in the statement of net assets. 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. JPMorgan 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. JPMorgan'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 2009, 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, DDEF incurred no losses during fiscal year 2009 resulting from a default by either the borrowers or the securities lending agents.

NOTE 5. SUMMARY OF INVESTMENT POLICY

Under RCW 43.33A.030, Trusteeship of DDEF 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, 42.52 RCW, as it makes its investment decisions and seeks to meet the following investment objectives.

In accordance with RCW 43.33.110, 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 Life Opportunities Trust Governing Board and the participants. Based on this requirement, the order of the objectives shall be:

- 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 comprise 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.
- Diversify the assets at a prudent level to moderate fluctuations in the fair value of the program.

PERMISSIBLE INVESTMENTS

Fixed Income: The fixed income portfolio will be limited to the Bond Market Fund (WSIB Policy 2.14.200). The Treasury Inflation Protection Securities portfolio will be invested in U.S. Inflation Indexed Bonds.

U.S. Equity: The U.S. equity portfolio will be invested in a passive commingled fund managed to track a U.S. broad market index.

Balanced Mutual Funds: DDEF – Private will invest in the Vanguard Balanced Index – Institutional Share's mutual fund.

International Equity: The international equity portfolio will be invested in a passive commingled fund managed to track an international broad market index.

Cash: The cash portfolio will be invested in Short-term Investment Funds and Money Market Funds.

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
Government Securities-Domestic:							
Treasury Inflation Protected Securities	$ 3,272,625	$ 456,438	$ 2,816,187	$ -	$ -	0.19	AAA
Investments Not Required to be Categorized Under GASB Statement No. 3							
Commingled Equity Index Funds - Domestic	509,307						
Commingled Equity Index Funds - Foreign	448,624						
Commingled Intermediate Credit	3,416,213						
Commingled Balanced Trust	10,211,728						
Money Market Funds	535,620						
Total Investments Not Categorized	15,121,492						
Total Investments	$ 18,394,117						

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