WASHINGTON STATE INVESTMENT BOARD

TWENTY NINTH ANNUAL REPORT

2010

INTRODUCTION

LETTER OF TRANSMITTAL

June 30, 2010

What a difference a year makes. One year ago our economy was mired in the worst recession in 75 years. Though we haven't fully recovered from the downturn, the Washington State Investment Board (WSIB) is now being rewarded for its disciplined investment approach and diversified portfolio, with returns back in the double digits.

Our commitment to our asset allocation was affirmed in a recent comparison of the WSIB to other public funds with assets of more than $25 billion. The WSIB's investment performance was in the top one percent of peers for the five-year period and the top 15 percent for the 10-year period, according to the Trust Universe Comparison Service (TUCS). The report also found our Fixed Income portfolio had the best investment performance of all public funds surveyed for both the five- and 10-year period.

This is not an insignificant achievement. Recognition goes to our capable investment team and to the experienced professionals at all levels of the agency. The WSIB is fortunate to be served by a strong, skilled, and engaged Board that takes its fiduciary duty seriously. This Board distinguished itself among public funds this last year by maintaining the conviction to stay with a sound investment strategy during a time when reasoned approaches were questioned.

A maxim in business is to never waste a crisis. This economic crisis, like others, has created opportunity. The WSIB is actively pursuing better fee alignment with private equity partners using the International Limited Partners Association framework as a guide, and has had some significant successes. We have also taken advantage of the economic downturn and subsequent slowdown in deal flow to re-analyze and streamline our investment portfolio. We developed a more comprehensive risk protection system and used the disruption in the labor market to add talented new staff to our already accomplished team. We're well positioned to move quickly on the inevitable opportunities that arise after periods of economic contraction.

We have also worked this year with other public funds to encourage federal officials to adopt the most comprehensive overhaul of financial regulations since the Great Depression. The WSIB was invited along with other public fund representatives last year to meet with senior White House and Treasury officials to discuss investor perspectives on a number of regulatory issues. Our priorities and concerns ranged from corporate governance, system risk, disclosures about over-the-counter (OTC) derivatives, and regulation of credit rating agencies to pension fund oversight. Many of our recommendations were incorporated in the final legislation.

This report describes in detail all of our portfolios, performance, operations and finance. As this past year has shown, the WSIB can and will continue to meet the high standards that the beneficiaries of the funds we manage expect and deserve.

Theresa Whitmarsh, Executive Director

MESSAGE FROM THE CHAIR

I am pleased to report that investment returns for the pension and other public funds managed by the WSIB are steadily moving back into positive territory. The rate of return for the state's retirement Commingled Trust Fund (CTF) ended fiscal year 2010 at 13.2%.

In times of crisis, there is a tendency among investment managers to second guess themselves and change their long term strategies at the worst possible time. I am gratified to report that our Board members and WSIB staff held firm to their beliefs and convictions and the result is that now our fund beneficiaries are being rewarded with ever improving performance.

I believe the WSIB's reputation for integrity, transparency, and good judgment is one of the best in the industry. We are viewed as a leader by our peers and other investment experts. Other funds routinely look to us for information on how they might develop and incorporate our risk analysis, research, and other investment tactics into their management practices and programs. Our governance structure, with its strict conflict of interest policies, promote the highest standards of ethical conduct which keeps the WSIB out of the headlines for questionable investment schemes and activities. Our travel, accounting, and contract compliance programs are thoroughly investigated each year by the State Auditor's Office and we are now realizing 18 consecutive years of clean audit reports with absolutely no findings.

Much of the credit for that impeccable and noteworthy record goes to the incredible dedication and excellence of the WSIB's staff. Speaking for them and all of us who serve on the Investment Board, it is a great honor to help the teachers, firefighters, law enforcement officers, and other public employees to grow their retirement savings which, in turn, will contribute to a healthier economy and better quality of life for all Washington citizens.

Pat McElligott, Chair

BOARD MEMBERS & COMMITTEES

The WSIB is an independent board of trustees whose fiduciary responsibility is to manage retirement and public fund investments with the highest standard of professional conduct. The Board's primary investment objective is to maximize returns at a prudent level of risk for the exclusive benefit of fund participants and beneficiaries. Individual Board members are 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 AND CONSULTANTS

THERESA J. WHITMARSH - EXECUTIVE DIRECTOR

Appointed in 2009

The WSIB's executive director is appointed by the Board to oversee the staff, develop and recommend agency and investment policies for Board adoption, and ensure adherence to state policies and laws.

GARY BRUEBAKER, CFA, CPA - CHIEF INVESTMENT OFFICER

Appointed in 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. The division deploys both internal and external investment management strategies.

VICTOR MOORE - CHIEF OPERATIONS OFFICER/CHIEF FINANCIAL OFFICER

Appointed in 2010

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.

LIZ MENDIZABAL - PUBLIC AFFAIRS DIRECTOR

Appointed in 2003

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

STEVE LERCH - RESEARCH DIRECTOR

Appointed in 2006

The Research Director is responsible for internal research and education on investment risk, new investment strategies, Board education sessions, and special studies. In addition, the Research Director serves as the business lead for the data warehouse project and team lead or member on strategic initiatives related to enterprise risk management, collaborations with other pension plans, and currency management.

INVESTMENT ACCOUNTING DATA SYSTEM

Financial Control Systems

MASTER CUSTODIAN BANK

JPMorgan Chase

INSURANCE PORTFOLIO CONSULTANT

Conning Asset Management

GENERAL & SPECIALTY CONSULTANTS

Aksia LLC

Albourne America LLC

Callan Associates

Cutter Associates, Inc.

Ennis Knupp & Associates

Holland Park Risk Management Inc.

Mercer Investment Consultants

Pension Consulting Alliance

R.V. Kuhns & Associates Inc.

LEGAL SERVICES

Allen Matkins Leck Gamble Mallory and Natsis

Cox, Castle, & Nicholson

Davis Wright Tremaine

Foster, Pepper & Shefelman

Goodwin Procter

K & L Gates

Orrick

Paul Hastings

Proskauer Rose

Robbins Geller Rudman and Dowd

Song Mondress

Torys

Washington Attorney General

PRIVATE EQUITY CONSULTANT

Capital Dynamics, Inc.

REAL ESTATE AND TANGIBLES CONSULTANT

Courtland Partners

PARTNERS AND FUND MANAGERS

Private Equity Partners

Accel Partners
Advent International
Affinity Equity Partners
Alta Communications
Ampersand Ventures
Apax Partners
Apex Investment 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
CDH Investments
Charterhouse Capital Partners
Cinven Ltd.
Clayton Dubilier & Rice
Code, Hennessy & Simmons
Collison, Howe and Lennox
Cypress Group
Doughty Hanson & Co.
Edgewater Funds
El Dorado Ventures
Elevation Partners
Endeavour Capital
Essex Woodlands
Evercore Capital Partners
Evergreen Pacific Partners
First Reserve Corp.
Fisher Lynch Capital
Flagship Ventures
Fortress Investment Group
FountainVest Partners
Francisco Partners
Frazier & Co.
Geocapital Partners
GGV Capital
Gilbert Global Equity Partners
Great Hill Partners
Green Mountain Partners
Gryphon Investors
GTCR
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

Aberdeen Asset Management PLC
Arrowstreet Capital, L.P.
Artio Global Investors
BlackRock Institutional Trust Company
Capital Guardian Trust Co.
Capital International, Inc.
Grantham, Mayo, Van Otterloo & Co. LLC
Investec Asset Management Limited
JPMorgan Asset Management, Inc.
Lazard Asset Management LLC
LSV Asset Management
Mondrian Investment Partners Ltd.
Pyramis Global Asset Trust Co.
State Street Global Advisors
Trilogy Global Advisors PLC
William Blair & Co.

Overlay Manager

Russell Investments

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 believes a strong, focused corporate governance program is an important part of managing and protecting pension fund assets. Through active support of corporate governance reforms and prudent voting of company proxies, the WSIB works to enhance shareowner value and support our long-term investment objectives.

The economic crisis made clear the need for long overdue reform of U.S. financial regulations. The result was the most sweeping set of legislative mandates aimed at protecting investors since the Great Depression. The Dodd-Frank Wall Street Reform and Consumer Protection Act expands the authority of existing regulators, closes gaps in financial regulation and enhances corporate governance at all U.S. public companies.

The WSIB supports many of the corporate governance reforms contained in the new law, including:

- Allowing shareowners to nominate candidates to serve on corporate boards;
- Giving shareowners an advisory vote on executive compensation commonly referred to as “say-on-pay;”and,
- Requiring disclosure of whether a company has separate CEO and chair positions.

The WSIB believes our goal to maximize investment returns includes vigilant oversight of the way companies in which we invest are managed. As a long-term investor, the WSIB doesn’t have the option of selling its shares if it doesn’t like the way a company is performing. Therefore, active participation is a necessity.

Between July 1, 2009 and June 30, 2010, the WSIB voted 3,538 proxy ballots. Proxy votes were cast on 25,558 individual proposals dealing primarily with election of directors, ratification of auditor, compensation plans, and shareowner proposals.

Of the total director votes during that time period, the WSIB withheld – or voted against – more than 3,000 incumbent directors, largely because of lack of board independence or unreasonably generous 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.”

In line with that commitment, the WSIB:

- Voted against 33 percent of the compensation plans proposed.
- Voted against 550 compensation committee members for paying excessive compensation.
- Voted in favor of 59 proposals to give shareowners an advisory vote on executive compensation plans.

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

WSIB ANNUAL BUDGET

June 30, 2010

OBJECTS OF EXPENDITURE

APPROPRIATED	Budget	Expenditures	Budget Variance
Salaries	$ 7,869,476	$ 7,251,863	$ 617,613
Benefits	1,676,200	1,565,687	110,513
Personal Service Contracts	310,800	104,088	206,712
Goods & Services	2,934,978	2,376,647	558,331
Travel	914,800	338,500	576,300
Equipment	140,000	204,693	(64,693)
Treasury Note	114,328	114,328	-
Subtotal Appropriated	$ 13,960,582	$ 11,955,806	$ 2,004,775 *
NON-APPROPRIATED	**Budget**	**Expenditures**	**Budget Variance**
U.S. Equity	$ 9,077,205	$ 1,923,514	$ 7,153,691
International Equity	51,771,171	31,945,340	19,825,831
Private Equity	179,476,480	177,784,275	1,692,205
Real Assets	52,368,990	45,742,912	6,626,078
Innovation Portfolio	12,200,000	3,233,599	8,966,401
General Consultants	2,457,940	883,652	1,574,288
Advisory Services Consultants	4,000,000	-	4,000,000
Legal Fees	1,239,550	188,124	1,051,426
Custodian Bank Fees	1,295,120	773,335	521,785
Securities Lending	17,600,060	6,197,912	11,402,148
Cash Management	2,612,850	1,288,342	1,324,508
Cash Overlay	500,000	521,481	(21,481)
Directed Brokerage	100,960	40,249	60,711
Investment Acctg Data System	1,249,500	1,145,348	104,152
Telecommunications	-	379	(379)
Memberships	95,200	77,023	18,177
Research Services	2,788,654	1,940,658	847,996
Subtotal Non Appropriated	338,833,680	273,686,143	65,147,537
TOTAL	$ 352,794,262	$ 285,641,949	$ 67,152,312

* The Balance will be carried forward to fiscal year 2011 since we are granted a biennial appropriation

INVESTMENTS

PLANS UNDER MANAGEMENT

RETIREMENT FUNDS

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 $42.9 billion to $52.7 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.

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, global 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.

Highlights

- The Board reviewed the allocation for the CTF in 2009 and made no changes.

FIXED INCOME

The fixed income program for the CTF 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), asset-backed securities (ABS), and commercial mortgage-backed securities (CMBS).

During fiscal year 2010, $1.1 billion in cash was moved out of the portfolio. In that same time period, the yield on the 10-year treasury went from 3.54% to 2.93%, hitting a high of 3.99% in April 2010 and a low of 2.93% as of June 30, 2010.

Highlights

- The portfolio outperformed the Barclays Universal Index for the year, returning 12.47% vs. 10.60% for the Universal Index.
- Treasuries, agencies, mortgages, and ABS were underweighted for the portfolio, while TIPS, CMO, CMBS and credits were overweighted.
- Transactions totaled $2.2 billion in sales and $3.0 billion in purchases.

TANGIBLE ASSETS

The tangible asset portfolio primarily targets investments in the infrastructure, natural resource rights (such as oil and natural gas), 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 is primarily focused 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.

The tangible asset program was established in 2008. Over time, we expect to create a well-diversified, global tangible asset portfolio with a variety of partners spread among the target sectors noted above, each with their own investment style and geographic diversification.

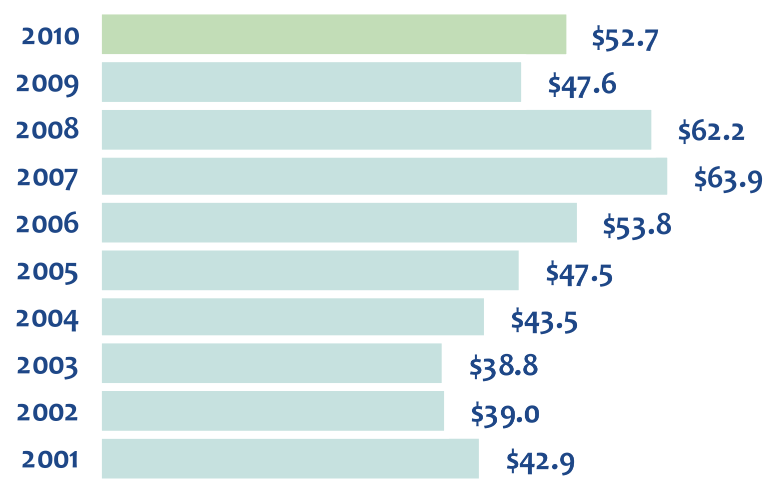
Highlights

- Although this asset class is still relatively new, investment performance for the past two years is largely encouraging.
- Returns for FY 2010 were 10.10%

REAL ESTATE

The WSIB's real estate program focuses 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

CTF Historical Market Values (Billions)



asset class. The majority of these externally-managed partnerships invest in properties leased to third parties. The steady income from lease payments, combined with potential appreciation, generate returns that are expected to fall between performance expectations for fixed income and equities over the long term.

Many of the WSIB's real estate 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 real estate assets are geographically diversified, including outside the U.S. Investments are made in a variety of property types to provide further diversification. Finally, diversification is enhanced by our partners investing at different points in the real estate capital structure and at different times in the property life cycle. These varying kinds of diversification provide a degree of stability within a cyclical investment class.

The exceptional disruption of global credit markets starting in late 2008 has dramatically impacted the value of real estate investments across the globe over the past two years. The sharp appreciation in commercial property values in prior years violently reversed course and most property types have seen declines of more than 30% in value from their peak. While the WSIB fared better than many other investors, some WSIB holdings were strongly impacted. The majority of the WSIB's Real Estate portfolio is performing relatively well given challenging market conditions and continues to produce attractive income yields—the primary goal of the program. The importance of having a long-term investment horizon is evident in the attractive returns for the real estate portfolio over a ten-year period.

Many real estate experts and researchers believe the worst of this down cycle is behind us. While this may be the case from a valuation standpoint, our view is that returns are likely to be tepid at best over the next two years, as expiring leases are re-written with terms reflective of the current market weakness. Additionally, a considerable overhang of commercial mortgages needing to be refinanced in the next several years is present, which has the potential to impact values negatively. Not all the news is negative, however, as some markets—particularly in Asia—have rebounded more quickly than those in the Americas and Europe.

Because the WSIB is a well-capitalized, long-term investor, we are able to patiently work through the current challenges, and our partners have begun to acquire high-quality property at attractive valuations in this environment. This bodes well for the long-term returns from the asset class.

Highlights

- For the one-year period ending June 30, 2010, the portfolio was down slightly but outperformed the National Council of Real Estate Investment Fiduciaries (NCREIF) Index, earning -3.82% versus -9.60% for the index.
- The ten-year return for the WSIB's real estate portfolio was 9.17% versus 7.12% for the NCREIF index. This also exceeded the WSIB's return benchmark for real estate, which is 8.00% over a rolling ten-year period.
- The strongest drivers of the good long-term returns were the WSIB's investments in real estate operating companies (REOCs) and geographic diversification, particularly outside the U.S.

PUBLIC EQUITY

The public equity program uses a global benchmark, the Dow Jones Global Total Stock Market Index, reflecting the globalization of capital markets. The program is being restructured but currently the public equity portfolio in the CTF remains a combination of separate U.S. and international components.

Because U.S. equity markets are generally efficient, all of the WSIB's domestic equity investments are in a low-cost, broad-based passive index fund. We believe that efficiency in international equity markets is increasing so the WSIB's developed markets international equity program has increased its use of passive strategies, but the majority of the program remains in active mandates. The entire emerging markets equity program is actively managed.

During the year, the enhanced indexing program was discontinued and the funds were reallocated to passive. Additionally, the allocation to emerging markets was increased. These markets have higher growth and are in better fiscal shape than the developed nations. As a result of the change, the WSIB hired three additional emerging markets managers. The weight in emerging markets is approximately equal to the Dow Jones Global Total Stock Markets Index.

Furthermore, in a world in which American companies like Coca-Cola get most of its revenue from overseas and many so-called foreign companies operate mainly in the U.S., distinctions between "U.S. stocks" and "international stocks" have become increasingly blurred. The WSIB believes that the future success of the program depends on investment managers finding the most attractive stock opportunities wherever they are in the world. During FY 2010 staff launched a search to identify and select global or international managers with a strong preference for integrated global (U.S. and international) equity strategies.

Volatility in equity markets continued around the globe in FY 2010. Early on, equity markets staged a strong recovery from the lows of the previous year, but in the second quarter concerns about the sustainability of the recovery caused significant pull-backs. Nonetheless, the WSIB's global equity markets program posted a positive return of 13.52%.

Highlights

- The U.S. equity program slightly outperformed its benchmark with a return of 16.38% versus the benchmark's 16.15% return.
- The developed international equity program outperformed significantly with a return of 9.54% versus the benchmark at 7.98%
- The emerging markets equity program lagged the benchmark slightly with a return of 24.19% versus the benchmark at 24.57%
- The CTF was underweight emerging markets equity most of the year until the new emerging markets managers were selected and funded in March/April 2010.

PRIVATE EQUITY

As of June 30, 2010, the private equity portfolio was valued at $13.6 billion, or approximately 25.7% of the CTF, compared with $10.4 billion and 21.9% at the previous fiscal year-end. The increase in the portfolio's value reflects the mark-to-market of underlying portfolio companies to reflect increasing multiples, due primarily to the strong rebound in public market comparables during the year.

Private equity fund-raising remained difficult during the fiscal year as many investors continued to have concerns about allocation capacity, liquidity, and the prospects for economic recovery. The pace of investing began to pick up modestly as financing markets began to recover, although activity levels were still relatively low by historical standards. Exits from existing portfolio company holdings also began to increase, due in part to very strong public equity markets, which allowed some companies to achieve liquidity through initial public offerings (IPO's) or secondary sales. Prospects for selling companies to strategic buyers and other financial sponsors also improved during the year.

The WSIB continues its focus on building a well-diversified portfolio of high quality partnerships. During the year, the Board adopted a model portfolio for private equity, designed to manage risk and increase expected returns through a more balanced general partner allocation, a more diversified strategy composition, and a more global geographic mix.

Highlights

- $0.9 billion in net new commitments to funds were closed during FY 2010 compared to $2.2 billion in FY 2009.
- $2.0 billion of committed capital was drawn for investment during the year compared to $1.9 billion in the prior year.
- $1.5 billion in distributions were returned to the WSIB compared with $0.7 billion in FY 2009.

INNOVATION PORTFOLIO

The primary investment strategy of the 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

- Mezzanine debt was added in FY 2009 and initially funded in FY 2010.
- Global equities is the only other investment in the portfolio and had no additional funding in FY 2010.

OTHER PLANS UNDER MANAGEMENT

DEFINED CONTRIBUTION RETIREMENT PLANS

The WSIB oversees the investment options in Plan 3, the Deferred Compensation Program (DCP), and the Judicial Retirement Account (JRA). However, these programs are accounted for and reported on by the DRS. Therefore, performance information and the financial statements are provided by DRS.

PERS 3
$1.4 Billion

SERS 3
$1.0 Billion

TRS 3
$4.0 Billion

Deferred Compensation Program
$2.4 Billion

Judicial Retirement Account
$11.4 Million

DAILY-VALUED FUNDS FOR SELF-DIRECTED INVESTMENT PROGRAMS

Bond Market Fund
$616.4 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
$964.6 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
$12.0 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
$861.0 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
$116.6 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
$1.4 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
$22.7 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.

FINANCIALS

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, 2010.

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:

The Washington State Investment Board

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PO Box 40916, Olympia, WA 98504-0916

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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, 2010, 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 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, 2010, 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 $21,654,098,699 (41% 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, 2010

MANAGEMENT DISCUSSION & ANALYSIS

Management's Discussion and Analysis for the Retirement Funds of the state of Washington, managed by the Washington State Investment Board (WSIB), is presented as an introduction to the financial statements. It is meant to assist the reader in understanding the financial statements by providing an overall review of the financial activities during the year as well as to provide a comparison to the prior year's activities and results. In addition to the Retirement Funds, the WSIB also manages funds for other 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, 2010, with those at June 30, 2009. 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, 2010. This information is summarized in Table 2. Table 2 also compares the financial activities of the Retirement Funds for the year ended June 30, 2010, with those of the year ended June 30, 2009. 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 increased by $5.2 billion during the fiscal year ended June 30, 2010. Realized and unrealized gains within the portfolio increased net assets by $4.9 billion. All asset classes, with the exception of real estate, experienced positive investment returns for the fiscal year, with a total fund return of 13.2 percent. Distributions to the retirement system decreased net assets by $(1.1) billion. Net investment income reinvested in the portfolio increased net assets by $1.4 billion.

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

- Liquid assets decreased by $(.6) billion. Cash income net of expenses reinvested in money market funds from all asset classes totaled $2.5 billion during the current fiscal year. Distributions to the Department of Retirement System decreased liquid assets by $(1.1) billion. Transfers of cash to other asset classes for investment purposes totaled $(2.0) billion.
- Fixed income increased by $.9 billion. Unrealized gains due to favorable market conditions increased this asset class by $.8 billion. As interest rates fell during the fiscal year, the price of fixed income securities rose, which resulted in substantial increases to fixed income invested balances. Investment return for the current fiscal year for fixed income securities was 12.5 percent. A decrease in fixed income securities of $(.2) billion resulted from a transfer to other asset classes. The change in net pending trades increased fixed income by $.3 billion. The majority of this increase is current year pending fixed income security purchases in the cash overlay program.
- Equities increased by $2.2 billion. Unrealized gains increased invested balances by $1.2 billion due to equity market appreciation experienced during the fiscal year. Global equity returns within the portfolio were 13.5 percent for the year ended June 30, 2010. Transfers in from other asset class totaled $.1 billion. The remaining increase of $.9 billion was due to the reinvestment of income within the equity portfolio.
- Alternative investments increased by $2.9 billion. General partners called an additional $1.1 billion of capital, net of returns of capital and management fees, which increased this asset class. Net capital contributions were funded by $.7 billion of transfers from other asset classes and $.4 billion of income received from general partners throughout the year. Positive returns in all capital markets impacted private equity and tangible asset as well. The modest negative fiscal year end return in real estate of (3.8) percent was offset by investment returns in

TABLE 1 - SUMMARIZED NET ASSETS	2010	2009	DOLLAR CHANGE	PERCENT CHANGE
Liquid Assets	$1,061,656,998	$1,645,037,085	$(583,380,087)	(35.5%)
Fixed Income Securites	11,758,744,355	10,889,254,491	869,489,864	8.0%
Equities	18,368,529,098	16,160,833,082	2,207,696,016	13.7%
Alternative Investments	21,654,098,699	18,798,267,278	2,855,831,421	15.2%
Total Investments	**52,843,029,150**	**47,493,391,936**	**5,349,637,214**	**11.3%**
Collateral Held Under Securities Lending Agreements	3,667,614,598	2,913,892,402	753,722,196	25.9%
Open Foreign Exchange Contracts Receivable	1,660,341,559	2,246,734,403	(586,392,844)	(26.1%)
Other Receivables	308,314,933	582,669,089	(274,354,156)	(47.1%)
Total Assets	**58,479,300,240**	**53,236,687,830**	**5,242,612,410**	**9.8%**
Obligations Under Securities Lending Agreements	3,667,614,598	2,913,892,402	753,722,196	25.9%
Open Foreign Exchange Contracts Payable	1,662,130,312	2,252,713,200	(590,582,888)	(26.2%)
Other Payables	421,649,716	494,089,199	(72,439,483)	(14.7%)
Total Liabilities	**5,751,394,626**	**5,660,694,801**	**90,699,825**	**1.6%**
Net Assets	**$52,727,905,614**	**$47,575,993,029**	**$5,151,912,585**	**10.8%**

private equity and tangible assets of 24.0 percent and 10.1 percent, respectively.

- Collateral held and obligations under securities lending agreements increased by $.7 billion. During the prior fiscal year the Retirement Funds ceased lending corporate bonds due to an increase in failed sale transactions. The Retirement Funds continue to lend public equities and U.S. Government securities. The increase in collateral balances reflects an overall increase in value of the underlying securities lent. In addition, the Retirement Funds hold Treasury and Agency securities which are in high demand in the lending marketplace.
- Open foreign exchange contracts receivable and payable decreased by $(.6) billion. International managers had less open trades at June 30, 2010 compared to the prior year, resulting in less open exchange contracts to cover the settlement currency of those trades.
- Other receivables decreased by $(.3) billion and other payables decreased by $(.1) billion mainly from a decrease in open and unsettled security trades. Trading volumes can vary substantially based on the timing of additional cash flows, market movements, and rebalancing of asset classes within a portfolio. Accordingly, there is generally minimal correlation to invested balances.

As shown in Table 2, net investment income for the year increased by $20.4 billion as follows:

- Investment income increased by $.4 billion. Income distributions received from private equity and real estate partnerships increased by $.1 billion over the prior fiscal year. Earnings on fixed income investments decreased by $(.1) billion from the previous year due to lower interest rates. The remaining increase of $.4 billion to investment income was due to increased income in the cash overlay program. The cash overlay program is used to equitize excess cash positions. During the fiscal year, the asset classes overlayed had positive investment returns which contributed to the increase in income. In addition, the program was suspended for six months during the previous fiscal year resulting in lower earnings in that time period.
- Realized and unrealized gains increased by $19.8 billion due to positive investment returns for the fiscal year in almost all asset classes. The annual return for the year ended June 30, 2010 was 13.2 percent for the Retirement Funds. Significant returns were noted in the fixed income portfolio of 12.5 percent, the global equity portfolio of 13.5 percent, and the private equity portfolio of 24.0 percent. Real estate, while exceeding their benchmark performance, had negative returns of (3.8) percent due to continued downward pressure on commercial real estate values.
- Net investment expenses decreased by $(.1) billion due to an accounting change related to fees netted out of commingled funds and a decrease in the spreads paid to brokers in securities lending transactions.
- Distributions to the Retirement System increased by $.4 billion to cover benefit payments. Decreased employer and employee contribution rates and a reduced workforce during the current fiscal year have increased the need for funds to cover benefit payments. In addition, pension benefit payouts have steadily increased, with the number of retirees growing and larger average retiree payments.

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	2010	2009	DOLLAR CHANGE
Net Assets - Beginning	**$47,575,993,029**	**$62,350,775,134**	**$(14,774,782,105)**
Net Investment Income			
Investment Income	1,537,073,503	1,062,041,041	475,032,462
Net Capital Gain (Loss)	1,031,102,004	(2,888,701,029)	3,919,803,033
Unrealized Gain (Loss)	3,891,618,219	(12,012,084,165)	15,903,702,384
Investment Expenses	(218,796,175)	(315,938,638)	(97,142,463)
Net Investment Income (Loss)	**6,240,997,551**	**(14,154,682,791)**	**20,395,680,342**
Net Withdrawal by Retirement Plans	(1,089,084,966)	(620,099,314)	468,985,652
Net Assets - Ending	**$52,727,905,614**	**$47,575,993,029**	**$5,151,912,585**

RETIREMENT FUNDS STATEMENT OF NET ASSETS - JUNE 30, 2010

See notes to financial statements

	Commingled Trust Fund	Plan-Specific Investments	Total	Percent of Plan Assets
ASSETS				
Investments:				
LIQUIDITY				
Money Market Funds	$ 880,802,179	$ 95,754,912	$ 976,557,091	
Currency	85,099,907	-	85,099,907	
Total Liquidity	965,902,086	95,754,912	1,061,656,998	2.0%
FIXED INCOME SECURITIES (U.S. DOLLAR DENOMINATED)				
Asset Backed Securities	188,397,863	-	188,397,863	
Residential Mortgage Backed Securities	2,875,073,669	-	2,875,073,669	
Commercial Mortgage Backed Securities	478,293,349	-	478,293,349	
Corporate Bonds - Domestic	1,624,171,354	-	1,624,171,354	
Corporate Bonds - Foreign	4,405,322,481	-	4,405,322,481	
US Government Treasury Securities	1,520,937,489	-	1,520,937,489	
Total Fixed Income Securities (U.S. Dollar Denominated)	11,092,196,205	-	11,092,196,205	21.0%
FIXED INCOME SECURITIES (NON U.S. DOLLAR DENOMINATED)				
Corporate Bonds - Foreign	666,548,150	-	666,548,150	1.3%
CORPORATE STOCK (U.S. DOLLAR DENOMINATED)				
Corporate Stock - Domestic	301,108,237	-	301,108,237	
Corporate Stock - Foreign	358,221,380	-	358,221,380	
Total Corporate Stock (U.S. Dollar Denominated)	659,329,617	-	659,329,617	1.2%
CORPORATE STOCK (NON U.S. DOLLAR DENOMINATED)				
Corporate Stock - Domestic	4,037,760	-	4,037,760	
Corporate Stock - Foreign	7,500,356,000	-	7,500,356,000	
Total Corporate Stock (Non U.S. Dollar Denominated)	7,504,393,760	-	7,504,393,760	14.2%
COMMINGLED EQUITY INDEX FUNDS				
Commingled Index Funds - Domestic	7,630,735,162	-	7,630,735,162	
Commingled Index Funds - Foreign	2,574,070,559	-	2,574,070,559	
Total Commingled Equity Index Funds	10,204,805,721	-	10,204,805,721	19.3%
ALTERNATIVE INVESTMENTS:				
Private Equity	13,560,127,191	-	13,560,127,191	
Real Estate	7,483,583,863	-	7,483,583,863	
Tangible Assets (Infrastructure, Natural Resources)	610,387,645	-	610,387,645	
Total Alternative Investments	21,654,098,699	-	21,654,098,699	41.0%
Total Investments	52,747,274,238	95,754,912	52,843,029,150	100.0%
Investment Earnings Receivable	168,896,463	26,883	168,923,346	
Receivables for Investments Sold	139,391,587	-	139,391,587	
Open Foreign Exchange Contracts Receivable	1,660,341,559	-	1,660,341,559	
Collateral Held Under Securities Lending Agreements	3,667,614,598	-	3,667,614,598	
Total Assets	58,383,518,445	95,781,795	58,479,300,240	
LIABILITIES				
Obligations Under Securities Lending Agreements	3,667,614,598	-	3,667,614,598	
Investment Management Fees Payable	10,906,195	-	10,906,195	
Payable for Investments Purchased	410,400,171	-	410,400,171	
Open Foreign Exchange Contracts Payable	1,662,130,312	-	1,662,130,312	
Due to Other Agencies	-	343,350	343,350	
Total Liabilities	5,751,051,276	343,350	5,751,394,626	
NET ASSETS	$ 52,632,467,169	$ 95,438,445	$ 52,727,905,614	

RETIREMENT FUNDS STATEMENT OF CHANGES IN NET ASSETS - YEAR ENDED JUNE 30, 2010

See notes to financial statements

	Commingled Trust Fund	Plan-Specific Investments	Total
Net Investment Income			
Investment Income:			
Interest, Dividends, and Other Investment Income	$ 1,517,121,416	$ 606,200	$ 1,517,727,616
Securities Lending Income	19,345,887	-	19,345,887
Realized Capital Gains	2,465,666,640	-	2,465,666,640
Realized Capital Losses	(1,434,564,636)	-	(1,434,564,636)
Unrealized Gains	3,891,618,219	-	3,891,618,219
Less:			
Investment Expenses	(204,253,314)	(208,133)	(204,461,447)
Securities Lending Broker Rebates Paid and Bank Fees	(5,985,769)	-	(5,985,769)
WSIB Operating Expenses	(8,005,609)	(343,350)	(8,348,959)
Net Investment Income	6,240,942,834	54,717	6,240,997,551
Net Withdrawal by Retirement Plans	-	(1,089,084,966)	(1,089,084,966)
Investments in Commingled Funds	946,849,475	(946,849,475)	-
Withdrawals from Commingled Funds	(1,941,758,000)	1,941,758,000	-
Increase (Decrease) in Net Assets	5,246,034,309	(94,121,724)	5,151,912,585
NET ASSETS, JUNE 30, 2009	47,386,432,860	189,560,169	47,575,993,029
NET ASSETS, JUNE 30, 2010	$ 52,632,467,169	$ 95,438,445	$ 52,727,905,614

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 the 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, management fees, and changes in values of foreign currency and published market prices for certain securities.

The limited partnerships' annual financial statements are audited by independent auditors. These investments are valued at $21.7 billion (41.0 percent of total net assets) as of June 30, 2010. 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.

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.

Investments and Withdrawals

Investments and withdrawals are recorded when received or paid.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

NOTE 2. THE COMMINGLED TRUST FUND (CTF) AND PLAN SPECIFIC INVESTMENTS

The Commingled Trust Fund (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 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 both the defined benefit and defined contribution portion of PERS Plan 3, SERS Plan 3 and TRS Plan 3, which are hybrid defined benefit/defined contribution plans. The participants also have the option to invest their defined contributions in 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.

SCHEDULE OF PARTICIPATION

RETIREMENT PLANS:	Commingled Trust Fund	Plan-Specific Investments	Total Plan Assets	Percent of Plan Assets
PERS 1	$ 7,623,144,373	$ 1,265,694	$ 7,624,410,067	14.5%
PERS 2/3 (DC and DB Plans)	17,090,257,329	31,877,543	17,122,134,872	32.5%
TEACHERS 1	6,399,164,898	3,469,677	6,402,634,575	12.1%
TEACHERS 2/3 (DC and DB Plans)	7,925,424,570	24,652,695	7,950,077,265	15.1%
VOLUNTEER FIREFIGHTERS	122,949,027	(704)	122,948,323	0.2%
LEOFF 1	4,582,803,118	2,176,019	4,584,979,137	8.7%
LEOFF 2	5,048,927,202	17,171,091	5,066,098,293	9.6%
SCHOOL EMPLOYEES 2/3 (DC and DB Plans)	2,989,442,748	7,662,131	2,997,104,879	5.7%
STATE PATROL 1	755,118,643	596,584	755,715,227	1.4%
STATE PATROL 2	7,089,034	300,835	7,389,869	Trace
PUBLIC SAFETY EMPLOYEES 2	88,146,227	2,700,120	90,846,347	0.2%
JUDICIAL	-	3,566,760	3,566,760	Trace
Total Net Assets at June 30, 2010	**$ 52,632,467,169**	**$ 95,438,445**	**$ 52,727,905,614**	**100.0%**

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 INVESTMENT FEES AND EXPENSES

EQUITY SECURITIES:	Fees Paid	Netted Fees *	Total Fees	Assets Under Management
U.S. Active Equity Manager	$ 437,084	$ -	$ 437,084	$ -
International Active Equity Managers	25,468,803	-	25,468,803	7,282,739,734
International Passive Equity Managers	1,688,645	9,152,831	10,841,476	3,027,955,340
U.S. Passive Equity Manager	999,273	529,240	1,528,513	7,630,735,162
Innovation Portfolio	2,814,849	443,551	3,258,400	427,098,863
ALTERNATIVE INVESTMENTS:				
Private Equity	144,862,277	-	144,862,277	13,560,127,191
Real Estate	23,018,937	-	23,018,937	7,483,583,863
Tangible Assets	704,747	7,137,246	7,841,993	610,387,645
CASH MANAGEMENT	851,560	-	851,560	1,061,656,998
OTHER FEES:				
Consultants and Advisors	557,904	-	557,904	-
Accounting	882,006	-	882,006	-
Legal Fees	162,188	-	162,188	-
Research Services	1,943,041	-	1,943,041	-
Miscellaneous Fees	70,133	-	70,133	-
Total Investment Expenses	$ 204,461,447	$ 17,262,868	$ 221,724,315	$ 41,084,284,796

** Netted fees are included in unrealized gains (losses) in the accompanying financial statements*

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, 2010, the Retirement Funds had the following unfunded investment commitments:

Private Equity	$7,589,665,972
Real Estate	$7,386,663,568
Tangible Assets	$481,950,877

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, 2010 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 mitigates custodial credit risk by having its investment securities held by its custodian. Also, investment securities are registered in the name of the Washington State Investment Board for the benefit of the Retirement Funds, excluding cash and cash equivalents and repurchase agreements held as securities lending collateral.

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 2010.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. 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 future 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, and decreases in interest rates result in increases in valuations. The Retirement Funds' fixed income investments are to be actively managed to exceed the return of the Barclays Capital Universal Index, with a duration that is not higher or lower twenty percent than the duration of the index. As of June 30, 2010, the Retirement Funds' duration was within the duration target of this index.

Schedule 1 provides information about the interest rate risks associated with the CTF investments as of June 30, 2010. 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, 2010, 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, 2010.

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.

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, 2010, was $3,971,347,906 and $3,860,195,764, respectively. As of June 30, 2010, the amounts the Retirement Fund owed the borrowers exceeded the amounts the borrowers owed the Retirement Funds, resulting in no credit risk exposure.

As of June 30, 2010, the Retirement Funds held the following securities as lending collateral (in thousands):

Cash and Cash Equivalents	$2,720,225
Commercial Paper	358,716
Securitized Debt Instruments	275,477
Repurchase Agreements	205,632
Medium Term Notes	173,961
Corporate Bonds	103,143
Miscellaneous	95,104
U.S. Government Securities	39,090
Total Collateral Held	$3,971,348

During fiscal year 2010, securities lending transactions could be terminated on demand by either the Retirement Funds or the borrower. The weighted average maturity of loans for 2010 was 2.2 days.

Cash collateral was invested by the Retirement Funds' agents in securities in the WSIB's separately managed short-term investment pool (average final maturity of 30 days). Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. Accordingly, non cash collateral held under securities lending contracts with a value of $303,733,308 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 2010, 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 2010 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. Derivative transactions involve, to varying degrees, market and credit risk. In connection with the international and domestic active equity strategy, at June 30, 2010, the Retirement Funds held investments in financial futures, forward currency contracts and other derivative securities that are recorded at fair value with changes in value recognized in investment income in the Statement of Changes in Net Assets in the period of change.

Derivatives are generally used to achieve the desired market exposure of a security, index or currency, adjust portfolio duration, or rebalance the total portfolio to the target asset allocation. Derivative contracts are instruments that derive their value from underlying assets, indices, reference interest rates, or a combination of these factors. A derivative instrument could be a contract negogiated on behalf of the Retirement Funds and a specific counterparty. This would typically be referred to as an "over the counter (OTC) contract" such as forward contracts and to be announced (TBA) securities. Alternatively, a derivative instrument, such as futures, could be listed and traded on an exchange and referred to as "exchange traded".

Inherent in the use of OTC derivatives, the Retirement Funds are exposed to counterparty credit risk on all open OTC positions. Counterparty credit risk is the risk that a derivative counterparty may fail to meet its payment obligation under the derivative contract. As of June 30, 2010, the Retirement Funds counterparty risk was not deemed to be significant, whether evaluating counterparty exposure outright or netting collateral against net asset positions on contracts with each counterparty.

Mortgage TBA's are used to achieve the desired market exposure of a security or asset class or adjust portfolio duration. A TBA is a contract for the purchase or sale of agency mortgage-backed securities to be delivered at a future agreed-upon date. TBA's carry future settlement risk due to the possibility of not receiving the asset or associated gains specified in the contract and such loss upon failure by counterparties to deliver under the contracts would not be material at June 30, 2010. The fair value of TBA derivatives is including in Residential Mortgage Backed Securities in the statement of net assets.

Futures contracts are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price. Gains and losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. The exchange assumes the risk that the counterparty will not pay and generally requires margin payments to minimize such risk. Futures are generally used to achieve the desired market exposure of a security or index or rebalance the total portfolio.

Forward currency contracts are agreements to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. These forward commitments are not standardized and carry credit risk due to the possible nonperformance by one of the counterparties. The maximum potential loss is the aggregate face value in U.S. dollars at the time the contract was opened; however, the likelihood of such loss is remote. At June 30, 2010, the Retirement Funds had outstanding forward currency contracts to purchase foreign currencies with a fair value of $1,634,777,158 and outstanding contracts to sell foreign currencies with a fair value of $1,632,983,411 reported as a component of open foreign currency contracts payable and receivable in the accompanying Statement of Net Assets. The net unrealized loss of $1,793,747 is included in the accompanying Statement of Changes in Net Assets. The contracts have varying maturity dates ranging from July 1, 2010, to November 10, 2010.

At June 30, 2010, the Retirement Funds fixed income portfolio held derivative securities consisting of collateralized mortgage obligations with a fair value of $1,080,375,154. 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.

Derivatives which are exchange traded are not subject to credit risk. The maximum loss that would be recognized at June 30, 2010, if all counterparties fail to perform as contracted is $1,809,909 of unrealized gain on TBA securities. This maximum exposure is reduced by $1,793,747 of unrealized losses (recorded as liabilities) on forward currency contracts, resulting in de minimis exposure to credit risk.

At June 30, 2010, the counterparties' credit ratings for forwards currency contracts that are subject to credit risk had a credit rating of no less than A2 using the Moody's rating scale.

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.

	Changes in Fair Value - Included in Investment Income	Fair Value at June 30, 2010 - Investment Derivative	
	Amount	Amount	Notional
FUTURES CONTRACTS:			
Bond Index Futures	$ 4,952,240	$ 4,952,240	3,588
Equity Index Futures	19,262,382	(1,990,468)	3,359
	24,214,622	2,961,772	6,947
TO BE ANNOUNCED SECURITES:			
FNMA TBA	1,809,909	257,135,300	242,000,000
FORWARD CURRENCY CONTRACTS:			
Australian Dollar	2,177,220	1,791,196	61,633,050
Canadian Dollar	5,355,028	(1,026,623)	133,531,474
Czech Koruna	361,116	(29,200)	(179,502,645)
Danish Krone	(56,524)	(44,006)	(35,713,935)
Euro	(2,611,710)	(2,304,514)	(70,242,743)
Hong Kong Dollar	(53,228)	(53,570)	(294,795,693)
Hungarian Forint	674,830	409,468	(920,416,298)
Israeli Shekel	237	237	1,280,568
Japanese Yen	(478,502)	2,813,123	6,747,047,532
Mexican Peso	(385)	(385)	(2,322,932)
New Zealand Dollar	116,840	(1,432)	(1,955)
Norwegian Krone	21,375	19,740	(87,284,559)
Polish Zloty	2,242,201	478,903	(17,929,556)
Pound Sterling	(554,597)	(1,003,012)	19,898,526
Singapore Dollar	4,174	1,346	(2,189,529)
South African Rand	(94,255)	(89,128)	(16,362,343)
Swedish Krona	(3,089,709)	(2,606,262)	(442,845,219)
Swiss Franc	33,839	(149,628)	(3,234,485)
Thai Baht	247	-	-
U.S. Dollar	-	-	(60,698,562)
	$ 4,048,197	$ (1,793,747)	4,829,850,696

Strategic 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.

Asset Class	Target	Policy Range	Asset Class Range
Fixed Income	20%	16 - 24%	+ or - 4%
Tangible Assets	5%	3 - 7%	+ or - 2%
Real Estate	13%	10 - 16%	+ or - 3%
Global Equity	37%	32 - 42%	+ or - 5%
Private Equity	25%	21 - 29%	+ or - 4%
Innovation Portfolio	0%	0 - 5%	+ 5%
Cash	0%	0 - 2%	+ 3%

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

In October 2007, the public equity program adopted a global benchmark, the Dow Jones Global Total Stock Markets Index, reflecting the globalization of capital markets. The CTF also reduced its asset allocation to public equity from 46 percent to 37 percent 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, all of the WSIB's investments in this segment are in a low-cost, broad-based passive index fund. 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 has increased its use of passive strategies to 35 percent, but kept the majority of the program in active mandates. The entire emerging markets equity program is actively managed.

During 2010, WSIB discontinued the enhanced indexing program with those funds reallocated to passive, resulting in the increase in passive noted above. The WSIB also increased the asset allocation of emerging markets equal to their weight within the Dow Jones Global Total Stock Markets Index.

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%

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, 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.

The portfolio is managed to meet or exceed the returns of the Russell 3000 (lagged by one quarter) plus 300 basis points.

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 over the long term. The real estate portfolio is managed to deliver risk-adjusted returns that are consistent with the WSIB's long term return expectations for the asset class. The Retirement 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 transactions 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 seeks to earn an 8 percent annual investment return over a rolling 10-year period.

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 a number of sectors, but the primary focus is infrastructure, timber, and natural resource rights (oil and natural gas).

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	$ 188,397,863	$ 19,141,468	$ 155,121,594	$ 7,499,426	$ 6,635,375	0.08	Sched 2
Residential Mortgage Backed Securities	2,875,073,669	360,807,754	2,502,014,695	12,251,220	-	1.56	Sched 2
Commercial Mortgage Backed Securities	478,293,349	60,363,171	416,905,204	1,024,974	-	3.43	Sched 2
Corporate Bonds Domestic (USD)	1,624,171,354	15,092,100	450,787,927	982,961,260	175,330,067	5.92	Sched 2
Corporate Bonds Foreign (USD)	4,405,322,481	103,819,005	979,625,966	2,639,195,456	682,682,054	4.78	Sched 2
Corporate Bonds Foreign (Non USD)	666,548,150	-	242,744,814	307,067,504	116,735,832	6.27	Sched 2
US Government Treasuries	673,678,191	-	673,678,191	-	-	1.43	Aaa
Treasury Inflation Protected Securities (TIPS)	847,259,298	-	847,259,298	-	-	0.94	Aaa
Total Retirement Funds Investment Categorized	11,758,744,355	$ 559,223,498	$ 6,268,137,689	$ 3,949,999,840	$ 981,383,328		
Investments Not Required to be Categorized							
Commingled Equity Index Funds	10,204,805,721						
Corporate Stock - U.S. Dollar Denominated	659,329,617						
Corporate Stock - Non U.S. Dollar Denominated	7,504,393,760						
Alternative Investments	21,654,098,699						
Liquidity	1,061,656,998						
Total Investments Not Categorized	41,084,284,795						
Total Investments	$ 52,843,029,150						

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	Baa3	Ba1 or Lower
Asset Backed Securities	$ 188,397,863	$ 146,601,521	$ -	$ 531,210	$ 6,978,601	$ -	$ -	$ -	$ 3,115,918	$ -	$ -	$ 31,170,613
Residential Mortgage Backed Securities	2,875,073,669	2,816,711,059	3,997,074	8,077,061	3,534,453	2,864,382	-	-	4,581,978	2,732,965	2,336,124	30,238,573
Commercial Mortgage Backed Securities	478,293,349	385,754,801	-	52,032,380	40,506,168	-	-	-	-	-	-	-
Corporate Bonds Domestic (USD)	1,624,171,354	102,048,607	-	-	143,149,960	112,531,487	226,212,308	71,016,737	389,579,656	367,526,127	60,952,663	151,153,809
Corporate Bonds Foreign (USD)	4,405,322,481	27,343,500	-	186,560,030	252,737,809	492,133,800	163,997,277	364,398,421	419,844,909	851,575,284	814,481,474	832,249,977
Corporate Bonds Foreign (Non USD)	666,548,150	511,085,695	-	-	-	-	787,973	29,213,561	-	26,834,258	61,793,990	36,832,673
				-	-	-	-	-	-	-	-	-
Total	$ 10,237,806,866	$ 3,989,545,183	$ 3,997,074	$ 247,200,681	$ 446,906,991	$ 607,529,669	$ 390,997,558	$ 464,628,719	$ 817,122,461	$ 1,248,668,634	$ 939,564,251	$ 1,081,645,645

SCHEDULE 3: FOREIGN CURRENCY EXPOSURE BY COUNTRY

Foreign Currency Denomination	Investment Type In U.S. Dollar Equivalent: Currency	Fixed Income	Common Stock	Commingled Index Funds	Private Equity	Real Estate	Total	Percent of Total Retirement Funds Investments
Australia-Dollar	$ 4,377,643	$ 373,360,443	$ 365,689,693	$ -	$ -	$ 18,282,451	$ 761,710,230	1.4%
Brazil-Real	399,110	134,078,749	100,423,576	-	-	-	234,901,435	0.4%
Canada-Dollar	1,858,317	-	453,622,687	-	-	-	455,481,004	0.9%
Denmark-Krone	347,880	-	81,981,633	-	-		82,329,513	0.2%
E.M.U.-Euro	41,009,921	-	2,006,480,418	-	1,575,004,830	120,529,030	3,743,024,199	7.1%
Hong Kong-Dollar	1,164,697	-	332,591,123	-	-	-	333,755,820	0.6%
India - Rupee	1,148,312	-	81,183,523	-	-	-	82,331,835	0.2%
Indonesia-Rupiah	4,001	26,068,363	36,854,084	-	-	-	62,926,448	0.1%
Japan-Yen	11,053,532	-	1,302,333,321	-	-	-	1,313,386,853	2.5%
Mexico-Peso	338,151	29,213,561	36,480,078	-	-	-	66,031,790	0.1%
Norway-Krone	1,168,736	43,247,119	72,110,290	-	-	-	116,526,145	0.2%
Poland-Zloty	504,017	-	18,298,440	-	-	-	18,802,457	0.1%
Singapore-Dollar	413,095	-	111,556,047	-	-	-	111,969,142	0.2%
South Africa-Rand	113,164	-	97,343,272	-	-	-	97,456,436	0.2%
South Korea-Won	391,865	-	116,471,660	-	-	-	116,863,525	0.2%
Sweden-Krona	849,388	-	184,502,923	-	694,140	-	186,046,451	0.4%
Switzerland-Franc	3,181,579	-	505,957,026	-	-	-	509,138,605	1.0%
Taiwanese-Dollar	11,532,757	-	106,170,138	-	-	-	117,702,895	0.2%
Turkey-Lira	265,275	49,027,633	94,902,968	-	-	-	144,195,876	0.3%
United Kingdom - Pound	3,556,251	787,973	1,274,107,771	-	9,485,698	-	1,287,937,693	2.4%
Other - Miscellaneous	1,422,216	10,764,309	125,333,089	-	-	-	137,519,614	0.3%
	85,099,907	666,548,150	7,504,393,760	-	1,585,184,668	138,811,481	9,980,037,966	19.0%
Foreign Investments Denominated in U.S. Dollars	-	4,405,322,481	358,221,380	2,574,070,559	2,861,732,377	2,443,231,637	12,642,578,434	23.9%
	$ 85,099,907	$ 5,071,870,631	$ 7,862,615,140	$ 2,574,070,559	$ 4,446,917,045	$ 2,582,043,118	$ 22,622,616,400	42.9%

LABOR AND INDUSTRIES' FUNDS

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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, 2010, 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, 2010, 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, 2010

MANAGEMENT DISCUSSION & ANALYSIS

Management's Discussion and Analysis for the Labor & Industries' Funds of Washington state (L&I Funds), managed by the Washington State Investment Board (WSIB), is presented as an introduction to the financial statements. It is meant to assist the reader in understanding the financial statements by providing an overall review of the financial activities during the year as well as to provide a comparison to the prior year's activities and results. The WSIB manages funds for other Washington state departments. This section represents only the L&I Funds portion. The L & I Funds are the second largest pool of investments managed by the WSIB.

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, 2010, with those at June 30, 2009. 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, 2010. 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, 2010, with those of the year ended June 30, 2009. 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 increased by $992.0 million during the fiscal year ended June 30, 2010. Net investment income reinvested in the fund totaled $488.0 million. Net realized and unrealized gains for the year increased net assets by $953.8 million. Distributions to L&I reduced net assets by $(449.8) million.

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

- Money market funds decreased by $(209.1) million. Net investment income reinvested in this short term investment vehicle totaled $470.5 million. Distributions to L&I decreased money market funds by $(449.8) million. The remaining decrease of $(229.8) million was the result of investing excess cash balances longer term and rebalancing to asset allocation policy targets.
- Fixed income securities increased by $1,054.4 million. Transfers into this asset class from money market funds totaled $229.7 million. Pending trades payable increased fixed income securities by $20.8 million. Net realized and unrealized gains due to favorable market conditions increased this asset class by $803.9 million. As interest rates fell during the fiscal year, the price of fixed income securities rose which resulted in substantial increases to fixed income invested balances. Returns for the current fiscal year for TIPS ranged from 9.6 to 9.9 percent. Other fixed income securities returned between 13.5 to 14.2 percent.
- Equity investments increased by $165.0 million. Reinvested income increased commingled fund equity holdings by $14.8 million. Cash transfers increased this asset class by $.2 million. Net realized and unrealized gains incurred increased equities by $150.0 million due to positive investment returns in the equity markets. The equity portfolio returned 14.2 percent for the current fiscal year.
- Collateral held and obligations under securities lending agreements increased by $571.5 million. Due to market volatility and difficulty recalling securities on loan to settle bond sales, lending activities were halted on all corporate bonds in December 2008. Despite the decrease in lendable balances, the WSIB was able to increase the amount of securities on loan of Treasury and Agency securities. As interest rates fell, the value of securities increased which required higher collateral balances held within the portfolio.

TABLE 1: SUMMARIZED NET ASSETS	2010	2009	DOLLAR CHANGE	PERCENT CHANGE
Money Market Funds	$220,859,845	$429,911,030	$(209,051,185)	(48.6%)
Fixed Income Investments	10,349,546,363	9,295,176,393	1,054,369,970	11.3%
Equity Investments	1,323,968,985	1,158,922,170	165,046,815	14.2%
Total Investments	**11,894,375,193**	**10,884,009,593**	**1,010,365,600**	**9.3%**
Collateral Held Under Securities Lending Agreements	2,377,679,109	1,806,129,610	571,549,499	31.6%
Investment Receivables - Other	102,328,608	99,743,124	2,585,484	2.6%
Total Assets	**14,374,382,910**	**12,789,882,327**	**1,584,500,583**	**12.4%**
Obligations Under Securities Lending Agreements	2,377,679,109	1,806,129,610	571,549,499	31.6%
Investment Payables - Other	31,167,051	10,226,431	20,940,620	204.8%
Total Liabilities	**2,408,846,160**	**1,816,356,041**	**592,490,119**	**32.6%**
Net Assets	**$11,965,536,750**	**$10,973,526,286**	**$992,010,464**	**9.0%**

TABLE 2: SUMMARIZED CHANGES IN NET ASSETS	2010	2009	DOLLAR CHANGE
Net Investment Income			
Interest, Dividends and Other Investment Income	$495,143,895	$539,329,671	$(44,185,776)
Net Capital Gains (Losses)	19,164,992	(42,047,114)	61,212,106
Unrealized Gains (Losses)	934,668,092	(262,347,652)	1,197,015,744
Less:			
Securities Lending Broker Rebates and Management Fees	(4,147,907)	(16,698,040)	(12,550,133)
Investment Expenses	(1,146,479)	(731,555)	414,924
WSIB Operating Expenses	(1,841,961)	(1,911,246)	(69,285)
Net Investment Income	**1,441,840,632**	**215,594,064**	**1,226,246,568**
Net Amount Withdrawn	(449,830,168)	(339,040,631)	110,789,537
Net Assets - Beginning	**10,973,526,286**	**11,096,972,853**	**(123,446,567)**
Net Assets - Ending	**$11,965,536,750**	**$10,973,526,286**	**$992,010,464**

- Investments payable increased by $20.9 million due to an increase in pending trades payable, which is a function of open trades as of a specific point in time. This balance can fluctuate a great deal from period to period based on trading strategies, asset allocation, and market movements.

As shown in Table 2, the net amount withdrawn by L&I increased by $110.8 million. Net premiums collected by L&I decreased due to a reduction in the hours reported by employers caused by current economic conditions. In addition, benefit payments to insured individuals increased requiring additional funds to be withdrawn from the invested balances. Interest and other investment income decreased by $(44.2) million due mainly to a decline in interest rates during the current fiscal year. Net realized and unrealized gains increased by $61.2 million and $1.2 billion, respectively. Both fixed income and equity securities experienced significant appreciation due to the market environment during the current fiscal year. Securities lending broker rebates decreased by $12.6 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. 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, 2010

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	$ 101,968,103	$ 56,372,278	$ 50,989,002	$ 11,530,462	$ 220,859,845	1.9%
FIXED INCOME INVESTMENTS:						
Residential Mortgage Backed Securities	769,029,306	524,177,069	454,358,351	36,172	1,747,600,898	
Commercial Mortgage Backed Securities	244,342,794	153,316,199	156,792,457	-	554,451,450	
Corporate Bonds - Domestic	1,114,741,151	935,852,462	1,029,077,253	2,141,330	3,081,812,196	
Corporate Bonds - Foreign (U.S. Dollar Denominated)	1,011,674,479	848,517,883	892,662,444	1,037,090	2,753,891,896	
U.S. Government Treasuries	211,085,604	152,865,915	241,340,005	-	605,291,524	
U.S. Treasury Inflation Protected Securities	454,523,457	847,474,634	304,500,308	-	1,606,498,399	
Total Fixed Income Investments	3,805,396,791	3,462,204,162	3,078,730,818	3,214,592	10,349,546,363	87.0%
EQUITY INVESTMENTS:						
Commingled Index Funds - Domestic	263,197,408	339,563,968	172,966,300	-	775,727,676	
Commingled Index Funds - Foreign	185,637,516	240,115,239	122,488,554	-	548,241,309	
Total Equity Investments	448,834,924	579,679,207	295,454,854	-	1,323,968,985	11.1%
Total Investments	4,356,199,818	4,098,255,647	3,425,174,674	14,745,054	11,894,375,193	100.0%
Investment Earnings Receivable	37,807,206	32,364,204	32,066,425	80,016	102,317,851	
Receivable for Investments Sold	3,985	4,997	1,775	-	10,757	
Collateral Held Under Securities Lending Agreements	763,436,380	1,001,947,817	612,294,912	-	2,377,679,109	
Total Assets	5,157,447,389	5,132,572,665	4,069,537,786	14,825,070	14,374,382,910	
LIABILITIES						
Obligations Under Securities Lending Agreements	763,436,380	1,001,947,817	612,294,912	-	2,377,679,109	
Accounts Payable	102,628	135,076	67,260	-	304,964	
Payable for Investments Purchased	20,733,500	10,053,200	-	-	30,786,700	
Due to Other Agencies	27,775	26,077	21,335	200	75,387	
Total Liabilities	784,300,283	1,012,162,170	612,383,507	200	2,408,846,160	
NET ASSETS	$ 4,373,147,106	$ 4,120,410,495	$ 3,457,154,279	$ 14,824,870	$ 11,965,536,750	

L&I FUNDS STATEMENT OF CHANGES IN NET ASSETS - YEAR ENDED JUNE 30, 2010

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	$ 191,201,723	$ 150,551,907	$ 143,501,541	$ 699,173	$ 485,954,344
Securities Lending Income	3,377,928	3,862,415	1,941,419	7,789	9,189,551
Realized Capital Gains	11,938,734	9,240,220	10,873,079	1,439,993	33,492,026
Realized Capital Losses	(2,208,727)	(11,193,064)	(925,014)	(229)	(14,327,034)
Unrealized Gains and Losses	347,364,313	329,571,045	258,708,650	(975,916)	934,668,092
Less:					
Securities Lending Broker Rebates and Management Fees	(1,544,907)	(1,725,970)	(873,741)	(3,289)	(4,147,907)
Investment Expenses	(424,716)	(397,990)	(319,129)	(4,644)	(1,146,479)
WSIB Operating Expenses	(688,631)	(635,313)	(510,626)	(7,391)	(1,841,961)
Net Investment Income	549,015,717	479,273,250	412,396,179	1,155,486	1,441,840,632
Residual Equity Transfer	(75,300,000)	-	75,300,000	-	-
Net Amount Contributed (Withdrawn)	(296,989,957)	(125,754,785)	12,422,610	(39,508,036)	(449,830,168)
Increase (Decrease) in Net Assets	176,725,760	353,518,465	500,118,789	(38,352,550)	992,010,464
Net Assets - June 30, 2009	4,196,421,346	3,766,892,030	2,957,035,490	53,177,420	10,973,526,286
Net Assets - June 30, 2010	$ 4,373,147,106	$ 4,120,410,495	$ 3,457,154,279	$ 14,824,870	$ 11,965,536,750

NOTES TO FINANCIAL STATEMENTS

NOTE 1. DESCRIPTION OF FUNDS AND SIGNIFICANT ACCOUNTING POLICIES

Description of Funds

The L&I Funds consist mainly of the investment of insurance premiums collected from employers in 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 L&I.

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. 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 are recognized when earned. Capital gains and losses are recognized on a trade date basis. Purchases and sales of investments are also recorded on a trade date basis.

Securities Lending

The 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.

Contributions and Withdrawals

Contributions and withdrawals are recorded when received or paid.

NOTE 2. FEES AND EXPENSES

Investment fees and expenses are accounted for as a reduction of investment income or are netted directly from the asset value of the L&I 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, 2010, 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 mitigates custodial credit risk by having its investment securities held by its custodian. Also, investment securities are registered in the name of the Washington State Investment Board for the benefit of the L&I Funds, excluding cash and cash equivalents and repurchase agreements held as securities lending collateral.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. 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. As of June 30, 2010, the L&I Funds' portfolio durations were within the duration targets documented in Note 6.

Schedule 1 provides information about the interest rate risks associated with the L&I Funds' investments as of June 30, 2010. 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, 2010, 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 percent of the fund's fair value at any time. There was no concentration of credit risk as of June 30, 2010.

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, 2010, consists of $548,241,309 invested in an international commingled equity index fund.

NOTE 4. SECURITIES LENDING

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.

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, 2010 was $2,574,586,477 and $2,513,515,139, respectively. As of June 30, 2010, 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, 2010, the L&I Funds held the following securities as collateral (in thousands)

Cash and Cash Equivalents	$1,763,496
Commercial Paper	232,552
Securitized Debt Instruments	178,589
Repurchase Agreements	133,309
Medium Term Notes	112,777
Corporate Bonds	66,867
Miscellaneous	61,655
U.S. Government Securities	25,341
Total Collateral Held	$2,574,586

During fiscal year 2010, securities lending transactions could be terminated on demand by either the L&I Funds or the borrower. The weighted average maturity of loans for 2010 was 2.2 days. Cash collateral was invested by the L&I Funds' in the WSIB's short-term investment pool (average final maturity of 30 days). Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. Accordingly, non cash collateral held under securities lending contracts with a value of $196,907,369 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 2010, 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 2010 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, 2010. 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, 2010, the only derivative securities held directly by L&I Funds were collateralized mortgage obligations of $1,746,487,279.

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; and
- 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 the fair value of the assets falls outside the policy ranges. The timing of any rebalancing will be based on market opportunities, cash flows, and the consideration of transaction costs; therefore, 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): a duration of less than 2.

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

		Maturity					
Investment Type	Total Fair Value	Less than 1 year	1-5 years	6-10 years	More than 10 years	Effective Duration	Credit Rating
Residental Mortgage Backed Securities	$ 1,747,600,898	$ 23,934,769	$ 889,862,228	$ 732,074,209	$ 101,729,692	6.11	Aaa
Commercial Mortgage Backed Securities	554,451,450	56,490,112	351,053,946	146,124,748	782,644	3.91	Schedule 2
Corporate Bonds - Domestic	3,081,812,196	125,038,619	680,589,196	1,016,490,488	1,259,693,893	8.07	Schedule 2
Corporate Bonds - Foreign (USD)	2,753,891,896	118,325,759	824,661,513	1,029,889,168	781,015,456	6.67	Schedule 2
Government Securities-Domestic:							
U.S. Government Treasuries	605,291,524	-	605,291,524	-	-	1.63	Aaa
U.S. Treasury Inflation Protected Securities	1,606,498,399	89,365,204	246,322,861	704,526,952	566,283,382	4.35	Aaa
	10,349,546,363	$ 413,154,463	$ 3,597,781,268	$ 3,629,105,565	$ 2,709,505,067		
Investments Not Required to be Categorized							
Commingled Index Funds-Domestic	775,727,676						
Commingled Index Funds-Foreign	548,241,309						
Money Market Funds	220,859,845						
Total Investments Not Categorized	1,544,828,830						
Total L & I Funds Investments	$ 11,894,375,193						

SCHEDULE 2: ADDITIONAL CREDIT RATING DISCLOSURES

		Moody's Equivalent Credit Rating										
Investment Type	Total Fair Value	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3	Ba1 or Lower
Commercial Mortgage Backed Securities	$ 554,451,450	$ 485,784,381	$ -	$ 28,160,900	$ 40,506,169	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Corporate Bonds - Domestic	3,081,812,196	116,121,045	-	-	364,886,031	307,415,919	786,111,184	290,627,309	510,698,970	513,004,187	169,785,047	23,162,504
Corporate Bonds - Foreign (USD)	2,753,891,896	375,070,745	-	245,090,635	316,123,844	329,247,969	84,836,028	240,359,857	288,580,524	522,372,868	300,244,426	51,965,000
Total	$6,390,155,542	$ 976,976,171	$ -	$ 273,251,535	$ 721,516,044	$ 636,663,888	$ 870,947,212	$ 530,987,166	$ 799,279,494	$1,035,377,055	$ 470,029,473	$ 75,127,504

PERMANENT FUNDS

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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, 2010, 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 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, 2010, 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, 2010

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. It is meant to assist the reader in understanding the financial statements by providing an overall review of the financial activities during the year as well as to provide a comparison to the prior year's activities and results. The WSIB manages funds for other 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, 2010, with those at June 30, 2009. 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, 2010. This information is summarized in Table 2. Table 2 also compares the financial activities of the Permanent Funds for the year ended June 30, 2010, with those of the year ended June 30, 2009. 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 $60.0 million during the fiscal year ended June 30, 2010. Contributions from the Department of Natural Resources (DNR) increased net assets by $17.3 million, which were invested in fixed income securities. Unrealized gains in the fixed income portfolio totaled $43.1 million and the equity portfolio amounted to $1.2 million for a total net asset value increase of $44.3 million. Distributions to beneficiary funds reduced net assets by $(32.8) million. The remaining increase of $31.2 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 increased by $.9 million. This cash balance represents less than 1 percent of total invested balances and is within policy targets. Cash is held to cover potential cash needs of DNR and to cover distributions to beneficiary funds and can fluctuate within policy targets.
- Fixed income investments increased by $57.7 million. Unrealized gains for the year totaled $43.1 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. Distributions to beneficiary funds exceeded contributions from DNR and reduced fixed income investments by $(15.5) million to cover these net disbursements. The remaining increase in this asset class was the result of reinvestment of earnings into fixed income securities.
- Equity investments increased $1.2 million due exclusively to unrealized gains resulting from the positive investment returns during the fiscal years.
- 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.

As shown in Table 2, net investment income increased by $28.9 million, almost entirely due to the positive investment returns within the portfolio. The fixed income investments returned 9.4 percent and the equity

TABLE 1: SUMMARIZED NET ASSETS	2010	2009	DOLLAR CHANGE	PERCENT CHANGE
Money Market Funds	$1,814,592	$855,893	$958,699	112.0%
Fixed Income Investments	850,437,115	792,722,965	57,714,150	7.3%
Equity Investments	8,877,267	7,640,232	1,237,035	16.2%
Total Investments	**861,128,974**	**801,219,090**	**59,909,884**	**7.5%**
Earnings Receivable	2,613,321	2,559,978	53,343	2.1%
Total Assets	**863,742,295**	**803,779,068**	**59,963,227**	**7.5%**
Distributions Payable	2,704,082	2,742,895	(38,813)	(1.4%)
Net Assets	**$861,038,213**	**$801,036,173**	**$60,002,040**	**7.5%**

TABLE 2: SUMMARIZED CHANGES IN NET ASSETS	2010	2009	DOLLAR CHANGE	PERCENT CHANGE
Net Investment Income				
Interest, Dividends and Other Investment Income	$31,390,640	$32,334,977	$(944,337)	(2.9%)
Unrealized Gains	44,254,927	14,445,815	29,809,112	206.4%
Less:				
Investment Fees	(126,818)	(141,031)	(14,213)	(10.1%)
Net Investment Income	**75,518,749**	**46,639,761**	**28,878,988**	**61.9%**
Net Amount Contributed	17,292,912	8,809,178	8,483,734	96.3%
Distributions to Beneficiaries	(32,809,621)	(35,293,475)	(2,483,854)	(7.0%)
Net Assets - Beginning	**801,036,173**	**780,880,709**	**20,155,464**	**2.6%**
Net Assets - Ending	**$861,038,213**	**$801,036,173**	**$60,002,040**	**7.5%**

portfolio had a return of 16.2 percent during the current fiscal year. Interest rates during the year have declined resulting in less distributable income to the Permanent Funds from the CMBF.

Contributions received from the Department of Natural Resources increased by $8.5 million due to increased prices on timber sales during the current fiscal year.

Distributions to beneficiaries decreased by $2.5 million. The decrease in income collections in the CMBF due to falling interest rates caused distributions to beneficiary funds to decrease as well.

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.

PERMANENT FUNDS STATEMENT OF NET ASSETS - JUNE 30, 2010

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	$ 296,249	$ 286,421	$ 469,132	$ 81,571	$ 350,673	$ 325,394	$ 1,814,592	0.2%
Commingled Monthly Bond Fund	-	349,344	189,020,824	243,377,182	178,956,582	207,839,909	30,893,274	850,437,115	98.8%
Commingled Equity Index Fund - Domestic	-	-	-	-	8,877,267	-	-	8,877,267	1.0%
Total Investments	5,152	645,593	189,307,245	243,846,314	187,915,420	208,190,582	31,218,668	861,128,974	100.0%
Investment Earnings Receivable	2	1,091	580,838	747,874	549,901	638,668	94,947	2,613,321	
Total Assets	5,154	646,684	189,888,083	244,594,188	188,465,321	208,829,250	31,313,615	863,742,295	
LIABILITIES									
Distributions and Other Payables	1	-	601,277	774,228	569,134	661,154	98,288	2,704,082	
NET ASSETS	$ 5,153	$ 646,684	$ 189,286,806	$ 243,819,960	$ 187,896,187	$ 208,168,096	$ 31,215,327	$ 861,038,213	

PERMANENT FUNDS STATEMENT OF CHANGES IN NET ASSETS - YEAR ENDED JUNE 30, 2010

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	$ 12	$ 13,218	$ 7,062,145	$ 8,956,357	$ 6,604,373	$ 7,611,720	$ 1,138,658	$ 31,386,483
Realized Capital Gains	-	341	-	-	2,994	-	822	4,157
Unrealized Gains	-	17,498	9,495,313	12,340,095	10,344,767	10,486,865	1,570,389	44,254,927
Less:								
Investment Expenses	-	-	-	-	(905)	-	-	(905)
WSIB Operating Expenses	(1)	(97)	(27,503)	(35,724)	(27,703)	(30,341)	(4,544)	(125,913)
Net Investment Income	11	30,960	16,529,955	21,260,728	16,923,526	18,068,244	2,705,325	75,518,749
Other Changes in Net Assets								
Net Amount Contributed	-	97	5,837,503	4,141,724	1,539,703	5,184,341	589,544	17,292,912
Income Distributions to Beneficiaries	(10)	(17,930)	(7,252,382)	(9,410,395)	(6,935,390)	(7,997,071)	(1,196,443)	(32,809,621)
Increase in Net Assets	1	13,127	15,115,076	15,992,057	11,527,839	15,255,514	2,098,426	60,002,040
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
Net Assets - June 30, 2010	$ 5,153	$ 646,684	$ 189,286,806	$ 243,819,960	$ 187,896,187	$ 208,168,096	$ 31,215,327	$ 861,038,213

NOTES TO FINANCIAL STATEMENTS

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.

The fixed income investments held by the Permanent Funds are 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. 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 2010 was $457,515. Securities lending expenses during the fiscal year totaled $205,688.

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, 2010, 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 mitigates custodial credit risk by having its investment securities held by its custodian. Also, investment securities are registered in the name of the Washington State Investment Board for the benefit of the Permanent Funds, excluding cash and cash equivalents and repurchase agreements held as securities lending collateral.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. 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. As of June 30, 2010, 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, 2010. 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, 2010, were rated by Moody's and/or an equivalent national rating organization. Investment 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, 2010.

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.

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, 2010 and 2009, was $216,996,926 and $212,570,458, respectively. As of June 30, 2010, the amounts the CMBF owed the borrowers exceeded the amounts the borrowers owed the CMBF, resulting in no credit risk exposure.

During fiscal year 2010, securities lending transactions within the CMBF could be terminated on demand by either the WSIB or the borrower. The weighted average maturity of loans for 2010 was 2.2 days.

Cash collateral was invested by the WSIB's agents in the WSIB's short-term investment pool (average final maturity of 30 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 $16,596,177 have not been included in the CMBF. There are no restrictions on the amount of securities that can be lent.

As of June 30, 2010, the CMBF held the following securities as lending collateral (in thousands):

Cash and Securities Held as Collateral	
Cash and Cash Equivalents	$148,635
Commercial Paper	19,600
Securitized Debt Instruments	15,052
Repurchase Agreements	11,236
Medium Term Notes	9,505
Corporate Bonds	5,636
Miscellaneous	5,197
U.S. Government Securities	2,136
Total Collateral Held	$216,997

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 2010, 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 2010 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, 2010. 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, 2010, the only derivative securities held directly by the Permanent Funds CMBF were collateralized mortgage obligations of $194,252,286.

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; and
- 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 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.

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

		Maturity					
Investment Type	Total Fair Value	Less than 1 year	1-5 years	6-10 years	More than 10 years	Effective Duration	Credit Rating
Residential Mortgage Backed	$ 195,256,277	$ 12,520,538	$ 147,188,809	$ 33,323,188	$ 2,223,742	3.45	Aaa
Commercial Mortgage Backed Securities	32,451,245	-	17,789,560	14,661,685	-	4.23	Aaa/Aaa2
Corporate Bonds - Domestic	218,715,159	5,004,850	86,871,458	94,553,416	32,285,435	6.02	See Below
Corporate Bonds - Foreign (USD)	149,644,686	10,111,600	70,277,923	63,941,636	5,313,527	4.59	See Below
Variable Rate - Domestic	9,999,000	9,999,000	-	-	-	0.08	Aa2
Government Securities-Domestic:							
U.S. Government Treasuries and Agencies	198,752,051	4,032,040	147,176,514	47,543,497	-	2.44	Aaa
Treasury Inflation Protected Securities	17,137,335		17,137,335		-	1.93	Aaa
	821,955,753	$ 41,668,028	$ 486,441,599	$ 254,023,422	$ 39,822,704		
Money Market Funds	24,651,888						
Investment Earnings Receivable	6,442,677						
Collateral Held Under Securities Lending Agreements	200,400,749						
Total Commingled Bond Fund Investments	1,053,451,067						
Due to Other Funds	(2,613,203)						
Obligations Under Securities Lending Agreements	(200,400,749)						
CMBF Net Asset Value - June 30, 2010	$ 850,437,115						

SCHEDULE 2: COMMINGLED MONTHLY BOND FUND (CMBF) CREDIT RATING (MOODY'S)

Rating	Corporate Bonds Domestic	Corporate Bonds Foreign (USD)
AAA	$ 10,775,649	$ 37,463,773
Aa1	-	-
Aa2	-	23,443,734
Aa3	22,914,806	10,896,465
A1	25,500,842	16,392,842
A2	64,502,604	5,211,800
A3	28,425,650	5,313,527
Baa1	16,422,052	13,330,263
Baa2	34,560,218	22,038,930
Baa3	15,613,338	15,553,352
	$ 218,715,159	$ 149,644,686

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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 (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, 2010, 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, 2010, 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, 2010

MANAGEMENT DISCUSSION & ANALYSIS

Management's Discussion and Analysis for the Other Funds of Washington state, managed by the Washington State Investment Board (WSIB), is presented as an introduction to the financial statements. It is meant to assist the reader in understanding the financial statements by providing an overall review of the financial activities during the year as well as to provide a comparison to the prior year's activities and results. The WSIB manages funds for other Washington state departments. This section of the report represents only the 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 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, 2010, with those at June 30, 2009. 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, 2010. This information is summarized in Table 2. Table 2 also compares the financial activities of the Other Funds for the year ended June 30, 2010, with those of the year ended June 30, 2009. 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 remained virtually unchanged during the fiscal year ended June 30, 2010. Distributions to beneficiary funds resulted in a decrease in net assets of $(20) thousand. Net investment income was received and reinvested into money market securities and amounted to $78.5 thousand for the fiscal year ended June 30, 2010.

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 increased by 0.2 percent. This increase resulted from investment earnings and maturities of municipal bonds both reinvested in this asset class.
- Fixed income securities decreased by (55.4) percent due to maturities of municipal bonds, the proceeds of which were reinvested in money market funds.
- Total receivables decreased by (88.4) percent due to the reduction in short term interest rates throughout the year and reinvestment of cash in lower earning interest bearing securities.

As shown in Table 2, net investment income decreased by (99.0) percent due to large reductions in invested balances through withdrawals in the prior year and substantial decreases in short term interest rates throughout the year. The net amount of withdrawals decreased due to withdrawals taken in the prior fiscal years. Substantial withdrawals were made by the Budget Stabilization Fund and the Pension Stabilization Fund in 2009 which significantly reduced the beginning invested net assets for the current fiscal year.

TABLE 1: SUMMARIZED NET ASSETS	2010	2009	DOLLAR CHANGE	PERCENT CHANGE
Money Market Funds	$116,510,543	$116,335,441	$175,102	0.2%
Fixed Income Investments	46,115	103,313	(57,198)	(55.4%)
Total Investments	**116,556,658**	**116,438,754**	**117,904**	**0.1%**
Total Receivables	7,894	67,800	(59,906)	(88.4%)
Net Assets	**$116,564,552**	**$116,506,554**	**$57,998**	**Trace**

TABLE 2: SUMMARIZED CHANGES IN NET ASSETS	2010	2009	DOLLAR CHANGE	PERCENT CHANGE
Net Assets - Beginning	**$116,506,554**	**$663,802,767**	**$(547,296,213)**	**(82.4%)**
Net Investment Income				
Investment Income	78,570	7,806,054	(7,727,484)	(99.0%)
Net Amount Withdrawn	(20,572)	(555,102,267)	(555,081,695)	(100.0%)
Net Assets - Ending	**$116,564,552**	**$116,506,554**	**$57,998**	**Trace**

OTHER FUNDS STATEMENT OF NET ASSETS - JUNE 30, 2010

See notes to financial statements

	Budget Stabilization	Reclamation Revolving	Game & Special Wildlife	Pension Stabilization	Health Insurance	Radiation Perpetual	Total	Percent of Total
ASSETS								
Investments:								
Money Market Funds	$ 21,430,834	$ 63,622	$ 6,549,024	$ -	$ 88,136,642	$ 330,421	$ 116,510,543	100.0%
Municipal Bonds	-	46,115	-	-	-	-	46,115	Trace
Total Investments	21,430,834	109,737	6,549,024	-	88,136,642	330,421	116,556,658	100.0%
Interest Receivable	1,227	1,229	375	-	5,044	19	7,894	
NET ASSETS	$ 21,432,061	$ 110,966	$ 6,549,399	$ -	$ 88,141,686	$ 330,440	$ 116,564,552	

OTHER FUNDS STATEMENT OF CHANGES IN NET ASSETS - YEAR ENDED JUNE 30, 2010

See notes to financial statements

	Budget Stabilization	Reclamation Revolving	Game & Special Wildlife	Pension Stabilization	Health Insurance	Radiation Perpetual	Total
Net Investment Income							
Investment Income	$ 17,085	$ 4,663	$ 5,221	$ 12	$ 70,256	$ 263	$ 97,500
Less:							
Investment Expenses	(319)	(3)	(184)	-	(2,478)	(9)	(2,993)
WSIB Operating Expenses	(1,649)	(19)	(994)	161	(13,386)	(50)	(15,937)
Net Investment Income	15,117	4,641	4,043	173	54,392	204	78,570
Net Amount Contributed (Withdrawn)	(713)	19	994	(34,308)	13,386	50	(20,572)
Increase (Decrease) in Net Assets	14,404	4,660	5,037	(34,135)	67,778	254	57,998
Net Assets - June 30, 2009	21,417,657	106,306	6,544,362	34,135	88,073,908	330,186	116,506,554
Net Assets - June 30, 2010	$ 21,432,061	$ 110,966	$ 6,549,399	$ -	$ 88,141,686	$ 330,440	$ 116,564,552

NOTES TO FINANCIAL STATEMENTS

NOTE 1. DESCRIPTION OF FUNDS AND SIGNIFICANT ACCOUNTING POLICIES

Description of Funds

The Other Funds of Washington state consist of: the Budget Stabilization, Reclamation Revolving, Game and Special Wildlife, Pension Stabilization, Health Insurance, and the Radiation Perpetual funds. These funds were created over the years by Washington state legislation 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. 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.

Contributions and Withdrawals

Contributions and withdrawals are recorded when received or paid.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

NOTE 2. FEES AND EXPENSES

Investment fees and expenses are accounted for as a reduction of investment income or are netted directly from the asset value of 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, 2010, 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. As of June 30, 2010, all of the Other Funds' securities were held in the Other Funds' name and/or are not exposed to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. 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.

Schedule 1 provides information about the interest rate risks associated with the Other Funds' investments as of June 30, 2010. 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, 2010, 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 74 percent in Chelan County Entiat Irrigation District, 26 percent in Chelan County Lower Stemilt Irrigation District.

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, 2010.

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; and
- 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	$ 46,115	$ 23,102	$ 23,013	$ -	$ -	1.17	AAA
Money Market Funds	116,510,543	N/A	N/A	N/A	N/A	N/A	N/A
Total Investments	$ 116,556,658	$ 23,102	$ 23,013	$ -	$ -		

GUARANTEED EDUCATION TUITION FUND

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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, 2010, 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 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, 2010, 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, 2010

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. It is meant to assist the reader in understanding the financial statements by providing an overall review of the financial activities during the year as well as to provide a comparison to the prior year's activities and results. The WSIB manages funds for other Washington state departments. This section of the report represents only the GET Fund portion.

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, 2010, with those at June 30, 2009. 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, 2010. This information is summarized in Table 2. Table 2 also compares the financial activities of GET for the year ended June 30, 2010, with those of the year ended June 30, 2009. 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 $308.5 million during the fiscal year ended June 30, 2010. Contributions to the GET Program during the year increased net assets by $183.2 million. Unrealized gains increased net assets in the fixed income portfolio by $31.2 million and the equity portfolio by $74.6 million. Net investment income received and reinvested in the fund increased net assets by $19.5 million during the fiscal year ended June 30, 2010.

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

- Money market funds decreased by $(12.3) million. Reinvestment of net investment income increased this asset class by $13.3 million. $(25.6) million was transferred to other asset classes for reinvestment.
- Fixed income investments increased by $170.0 million. New funds invested in fixed income securities from contributions and transfers of cash were $138.8 million. Unrealized gains for the year increased fixed income securities by $31.2 million. 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). The CPI rose during the year which contributed to the increase in value in the TIPS holdings.
- Equity investments increased by $150.0 million. Contributions received from the GET Program and transfers of cash were reinvested in this asset class for a total of $69.2 million. These equity investments gained $74.6 million of value due to the stabilization and rebounding of global equity markets. Income distributed and reinvested in this asset class totaled $6.2 million.
- Net receivables and payables changed substantially due to securities lending activities. While the lending activities for Treasury securities in the overall marketplace decreased due to increased supply, the GET program's average lendable assets

TABLE 1: SUMMARIZED NET ASSETS	2010	2009	DOLLAR CHANGE	PERCENT CHANGE
Money Market Funds	$38,126,225	$50,441,769	$(12,315,544)	(24.4%)
Fixed Income Investments	582,845,452	412,852,609	169,992,843	41.2%
Equity Investments	749,687,895	599,657,714	150,030,181	25.0%
Total Investments	**1,370,659,572**	**1,062,952,092**	**307,707,480**	**28.9%**
Collateral Held Under Securities Lending Agreements	489,786,760	359,320,484	130,466,276	36.3%
Investment Earnings Receivable	4,434,189	3,603,488	830,701	23.1%
Total Assets	**1,864,880,521**	**1,425,876,064**	**439,004,457**	**30.8%**
Investment Liabilities	489,870,143	359,360,783	130,509,360	36.3%
Net Assets	**$1,375,010,378**	**$1,066,515,281**	**$308,495,097**	**28.9%**

TABLE 2: SUMMARIZED CHANGES IN NET ASSETS	2010	2009	DOLLAR CHANGE	PERCENT CHANGE
Net Investment Income				
Interest, Dividends and Other Investment Income	$17,420,251	$20,013,996	$(2,593,745)	(13.0%)
Net Capital Gains (Losses)	3,068,210	(1,816,838)	4,885,048	268.9%
Unrealized Gains (Losses)	105,817,250	(166,058,979)	271,876,229	163.7%
Less:				
Securities Lending Rebates and Fees	(714,001)	(2,643,416)	(1,929,415)	(73.0%)
Other Fees	(320,285)	(212,643)	107,642	50.6%
Net Investment Income (Loss)	**125,271,425**	**(150,717,880)**	**275,989,305**	**183.1%**
Net Amount Contributed	183,223,672	177,546,047	5,677,625	3.2%
Net Assets - Beginning	**1,066,515,281**	**1,039,687,114**	**26,828,167**	**2.6%**
Net Assets - Ending	**$1,375,010,378**	**$1,066,515,281**	**$308,495,097**	**28.9%**

increased by 22 percent during the current fiscal year. This increase in lendable securities was due to contributions reinvested in TIPS.

As shown in Table 2, net investment income increased by $276.0 million during the fiscal year ended June 30, 2010. Interest income on cash and fixed income securities decreased by $(3.5) million due to decreasing interest rates on fixed income securities. This was partially offset by increased income distributions in the commingled equity index funds of $1 million. Downward pressure on interest rates resulted in increases in the price of fixed income securities. Accordingly, realized and unrealized gains on TIPS increased investment income by $49.5 million. In addition, the global equity markets rebounded during the year which increased realized and unrealized gains in this asset class by $227.2 million. Rebates paid on securities lending transactions decreased as the spreads paid to brokers continued to narrow during this time period, resulting in lower fees paid and an increase to net investment income of $1.9 million. The remaining decrease in net investment income of $(.1) million was due to increased management fees which correlate to the increase in assets under management.

Contributions from GET participants increased by $5.7 million as participants continued to take advantage of lower tuition unit purchase prices 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. 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, 2010

See notes to financial statements

			Percent
ASSETS			
Investments:			
Money Market Funds	$	38,126,225	2.8%
Treasury Inflation Protected Securities		582,845,452	42.5%
Commingled Equity Index Funds - Domestic		498,583,337	36.4%
Commingled Equity Index Funds - Foreign		251,104,558	18.3%
Total Investments		1,370,659,572	100.0%
Investment Eearnings Receivable		4,434,189	
Collateral Held Under Securities Lending Agreements		489,786,760	
Total Assets		1,864,880,521	
LIABILITIES			
Obligations Under Securities Lending Agreements		489,786,760	
Accounts Payable		83,383	
Total Liabilities		489,870,143	
NET ASSETS	$	1,375,010,378	

GET FUND STATEMENT OF CHANGES IN NET ASSETS - YEAR ENDED JUNE 30, 2010

See notes to financial statements

Net Investment Income		
Investment Income		
Interest, Dividends and Other Investment Income	$	15,497,950
Securities Lending Income		1,922,301
Realized Capital Gains		3,258,347
Realized Capital Losses		(190,137)
Unrealized Gains		105,817,250
Less:		
Securities Lending Rebates and Fees		(714,001)
Investment Expenses		(137,697)
WSIB Operating Expenses		(182,588)
Net Investment Income		125,271,425
Net Amount Contributed		183,223,672
Increase in Net Assets		308,495,097
Net Assets - June 30, 2009		1,066,515,281
Net Assets - June 30, 2010	$	1,375,010,378

NOTES TO FINANCIAL STATEMENTS

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 Washington state. 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 GET 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. 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.

Contributions

Contributions are recorded when received.

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, 2010, 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 mitigates custodial credit risk by having its investment securities held by its custodian. Also, investment securities are registered in the name of the Washington State Investment Board for the benefit of the GET Funds, excluding cash and cash equivalents and repurchase agreements held as securities lending collateral.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. 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 long-term goals of the fixed income portfolio are to return 325 basis points above inflation, and to limit volatility for the total portfolio. The goals are primarily met through the purchase of inflation indexed bonds. Schedule 1 provides information about the interest rate risks associated with GET investments as of June 30, 2010. 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, 2010.

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, 2010, consists of $251,104,558 invested in an international commingled equity index fund.

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.

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, 2010, was $530,348,424 and $517,047,698, respectively. As of June 30, 2010, 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, 2010, the GET held the following securities as collateral (in thousands)

Cash and Cash Equivalents	$363,269
U.S. Government Securities	5,221
Commercial Paper	47,904
Securitized Debt	36,788
Corporate Bonds	13,774
Miscellaneous	12,701
Medium Term Notes	23,231
Repurchase Agreements	27,460
Total Collateral Held	$530,348

During fiscal year 2010, securities lending transactions could be terminated on demand by either GET or the borrower. The weighted average maturity of loans for 2010 was 2.2 days.

Cash collateral was invested by GET's agent in securities issued or guaranteed by the U.S. government, in the WSIB's separately managed short-term investment pool (average final maturity of 30 days). Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. Accordingly, non-cash collateral held under securities lending contracts with a value of $40,561,664 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 2010, 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 2010 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; and
- 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 is as follows: (Non U.S. Equity within a 4 percent tolerance, all others within a 5 percent tolerance)

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

		Maturity					
Investment Type	Total Fair Value	Less than 1 year	1-5 years	6-10 years	More than 10 years	Effective Duration	Credit Rating
Treasury Inflation Protected Securities	$ 582,845,452	$ 14,521,846	$ 192,297,232	$ 204,809,705	$ 171,216,669	3.92	Aaa
Investments Not Required to be Categorized							
Commingled Equity Index Funds-Domestic	498,583,337						
Commingled Equity Index Funds-Foreign	251,104,558						
Money Market Funds	38,126,225						
Total Investments Not Categorized	787,814,120						
Total Investments	$ 1,370,659,572						

DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST FUND

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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, 2010, 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, 2010, 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, 2010

MANAGEMENT DISCUSSION & ANALYSIS

Management's Discussion and Analysis for the Developmental Disabilities Endowment Trust Fund (DDEF) of Washington state, managed by the Washington State Investment Board (WSIB), is presented as an introduction to the financial statements. It is meant to assist the reader in understanding the financial statements by providing an overall review of the financial activities during the year as well as to provide a comparison to the prior year's activities and results. The WSIB manages funds for other Washington state departments. This section of the report covers the 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, 2010. This information is summarized in Table 1. Table 1 also compares the asset, liability, and net asset balances at June 30, 2010, with those at June 30, 2009. 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, 2010. This information is summarized in Table 2. Table 2 also compares the financial activities of DDEF for the year ended June 30, 2010, with those of the year ended June 30, 2009. 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 $4.3 million during the fiscal year ended June 30, 2010. 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 and realized and unrealized gains of $1.8 million. Net investment income received increased net assets for the funds and amounted to $0.5 million during the year ended June 30, 2010.

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

- Money market funds decreased by $0.5 million. The WSIB, in conjunction with the DDEF Board, has been cautiously reinvesting the cash balances longer term during the current fiscal year. Money market funds decreased primarily due to this rebalancing process;
- Fixed income investments increased by $0.7 million, primarily due to realized and unrealized gains occurring within this asset class. Interest rates have continued to drop during the current fiscal year which has resulted in increased market values within the bond market;
- Balanced mutual funds received $2.2 million of contributions and cash transfers to invest. Realized and unrealized gains and losses increased this asset class by $1.1 million. Additional income reinvested in the fund totaled $0.3 million for a total net increase of $3.6 million in this asset class. Both the bond and equity markets have had substantial increases in value during the current fiscal year;
- Equity investments gained $0.1 million of market value due to the current economic environment. Transfers from money market funds increased equity investments by $0.3 million for a total increase of $0.4 million for this asset class; and
- Cash collateral held under securities lending contracts and the related obligation decreased by $0.3 million due to securities lending activities.

TABLE 1: SUMMARIZED NET ASSETS	2010	2009	DOLLAR CHANGE	PERCENT CHANGE
Money Market Funds	$62,566	$535,620	$(473,054)	(88.3%)
Fixed Income Investments	7,438,611	6,688,838	749,773	11.2%
Balanced Funds	13,824,309	10,211,728	3,612,581	35.4%
Equity Investments	1,342,692	957,931	384,761	40.2%
Total Investments	**22,668,178**	**18,394,117**	**4,274,061**	**23.2%**
Collateral Held Under Securities Lending Agreements	2,749,253	3,007,409	(258,156)	(8.6%)
Earnings Receivable	24,265	44,442	(20,177)	(45.4%)
Total Assets	**25,441,696**	**21,445,968**	**3,995,728**	**18.6%**
Investment Liabilities	2,749,337	3,007,409	(258,072)	(8.6%)
Net Assets	**$22,692,359**	**$18,438,559**	**$4,253,800**	**23.1%**

TABLE 2: SUMMARIZED CHANGES IN NET ASSETS	2010	2009	DOLLAR CHANGE
Net Investment Income			
Investment Income	$999,172	$411,303	$587,869
Unrealized Gains (Losses)	1,305,054	(1,834,261)	3,139,315
Less:			
Investment Expenses	(2,668)	(2,385)	283
Net Investment Gain (Loss)	**2,301,558**	**(1,425,343)**	**3,726,901**
Net Amount Contributed	1,952,242	1,986,205	(33,963)
Net Assets - Beginning	18,438,559	17,877,697	560,862
Net Assets - Ending	**$22,692,359**	**$18,438,559**	**$4,253,800**

As shown in Table 2, net investment earnings increased substantially from the prior year due almost entirely to increases in the market value of the underlying equity and fixed income securities (realized and unrealized). Interest rates on TIPS are directly correlated to changes in the Consumer Price Index (CPI). The CPI has increased during the current fiscal year and, accordingly, interest earnings on TIPS have 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 positive investment performance in both the bond and 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, 2010

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	$ 9,466	$ 53,100	$ 62,566	0.3%
FIXED INCOME INVESTMENTS:				
Treasury Inflation Protected Securities	3,744,214	-	3,744,214	16.5%
Commingled Intermediate Credit	3,694,397	-	3,694,397	16.3%
BALANCED FUNDS:				
Balanced Mutual Funds - Domestic	-	13,824,309	13,824,309	61.0%
EQUITY INVESTMENTS:				
Commingled Equity Index Funds - Domestic	714,924	-	714,924	3.1%
Commingled Equity Index Funds - Foreign	627,768	-	627,768	2.8%
Total Investments	8,790,769	13,877,409	22,668,178	100.0%
Investment Earnings Receivable	24,263	2	24,265	
Collateral Held Under Securities Lending Agreements	2,749,253	-	2,749,253	
Total Assets	11,564,285	13,877,411	25,441,696	
LIABILITIES				
Obligations Under Securities Lending Agreements	2,749,253	-	2,749,253	
Accrued Payables	84	-	84	
NET ASSETS	**$ 8,814,948**	**$ 13,877,411**	**$ 22,692,359**	

DDEF STATEMENT OF CHANGES IN NET ASSETS - YEAR ENDED JUNE 30, 2010

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	$ 108,877	$ 360,252	$ 469,129
Realized Capital Gains	530,793	-	530,793
Realized Capital Losses	(750)	-	(750)
Unrealized Gains	209,286	1,095,768	1,305,054
Less:			
Investment Expenses	(1,042)	(349)	(1,391)
WSIB Operating Expenses	(1,277)	-	(1,277)
Net Investment Income	845,887	1,455,671	2,301,558
Net Amount Contributed	1,277	1,950,965	1,952,242
Increase in Net Assets	847,164	3,406,636	4,253,800
Net Assets, June 30, 2009	7,967,784	10,470,775	18,438,559
Net Assets, June 30, 2010	$ 8,814,948	$ 13,877,411	$ 22,692,359

NOTES TO FINANCIAL STATEMENTS

NOTE 1. DESCRIPTION OF FUNDS AND SIGNIFICANT ACCOUNTING POLICIES

Description of Funds

The Developmental Disabilities Endowment Fund (DDEF) of Washington state consists of two funds. The State Trust Fund was originally created from a grant by Washington state. 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. 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.

Contributions

Contributions are recorded when received.

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, 2010, 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 Funds will not be able to recover the value of investments that are in the possession of an outside party. The DDEF Funds mitigates custodial credit risk by having its investment securities held by its custodian. Also, investment securities are registered in the name of the Washington State Investment Board for the benefit of the DDEF Funds, excluding cash and cash equivalents and repurchase agreements held as securities lending collateral.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. 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.

Schedule 1 provides information about the interest rate risks associated with DDEF investments as of June 30, 2010. 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, 2010, 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, 2010.

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, 2010, consists of $627,768 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.

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, 2010, was $2,976,930 and $2,918,529, respectively. As of June 30, 2010, 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, 2010, the DDEF held the following securities as collateral:

Securitized Assets	$206,498
Cash and Equivalents	2,039,087
U.S. Government Securities	29,302
Commercial Paper	268,894
Corporate Bonds	77,316
Miscellaneous	71,290
Medium Term Notes	130,401
Repurchase Agreements	154,142
Total Collateral Held	$2,976,930

During fiscal year 2010, securities lending transactions could be terminated on demand by either DDEF or the borrower. The weighted average maturity of loans was 2.2 days.

Cash collateral was invested by DDEF's agent in the WSIB's separately managed short-term investment pool (average final maturity of 30 days). Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. Accordingly, non-cash collateral held under securities lending contracts with a value of $227,677 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 2010, 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 2010 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; and
- 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.

Asset Allocation

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

- Short term: Earn a rate of return that exceeds inflation, with a bias toward preservation of corpus; and
- Long term: Earn a rate of return that exceeds inflation plus a set spending rate.

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

State Funds	Target	Range
Cash	0%	0-5%
Fixed Income	41%	38-44%
U.S. Equity	9%	6-12%
International Equity	8%	5-11%
TIPS	42%	39-45%

Private Funds	Target
Cash	$10,000
Fixed Income	40%
Equity	60%

SCHEDULE 1: SCHEDULE OF MATURITIES AND CREDIT RATINGS

		Maturity					
Investment Type	Total Fair Value	Less than 1 year	1-5 years	6-10 years	More than 10 years	Effective Duration	Credit Rating
Government Securities-Domestic:							
Treasury Inflation Protected Securities	$ 3,744,214	$ -	$ 129,492	$ 3,614,722	$ -	4.07	Aaa
Investments Not Required to be Categorized							
Commingled Equity Index Funds - Domestic	714,924						
Commingled Equity Index Funds - Foreign	627,768						
Commingled Intermediate Credit	3,694,397						
Commingled Balanced Trust	13,824,309						
Money Market Funds	62,566						
Total Investments Not Categorized	18,923,964						
Total Investments	$ 22,668,178						

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