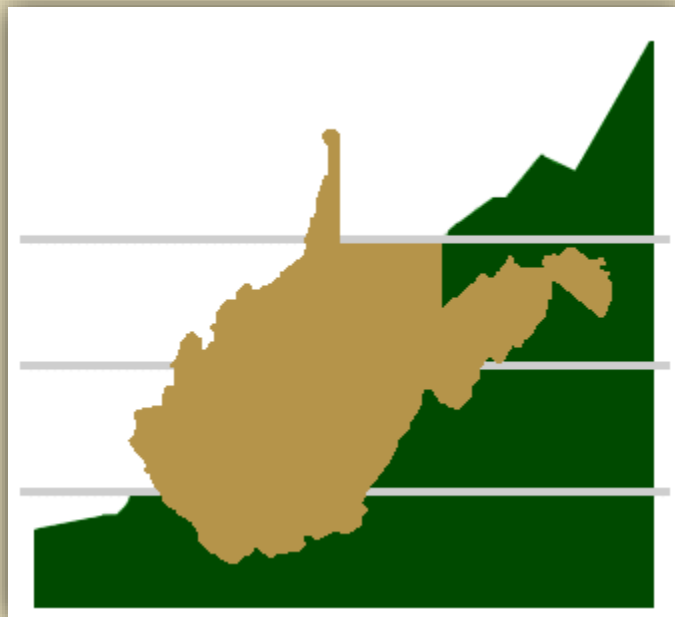


**West Virginia**

**Investment Management Board**



**Financial Statements**

**October 31, 2018**



# West Virginia Investment Management Board

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## **Financial Statements – Unaudited**

October 31, 2018

### **ORDER OF PRESENTATION**

Domestic Equity

International Qualified

International Nonqualified

International Equity

Short-Term Fixed Income

Total Return Fixed Income

Core Fixed Income

TIPS

TRS Annuity

Private Markets

Hedge Fund



**Financial Statements - Unaudited**

**October 31, 2018**



# Domestic Equity Pool

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## **Financial Statements - Unaudited October 31, 2018**

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# Domestic Equity Pool

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## Statement of Net Position - Unaudited

October 31, 2018

(Amounts in thousands, except unit data)

### Assets

Investments, at fair value:		
Equity investments	\$	4,140,059
Money market mutual fund		16,355
Securities lending collateral		232,204
Cash		1,939
Receivables:		
Investments sold		7,576
Dividends and other investment income		1,243
		<hr/>
<b>Total assets</b>		4,399,376

### Liabilities

Accrued expenses		779
Payable for investments purchased		4,677
Payable upon return of securities loaned		232,204
		<hr/>
<b>Total liabilities</b>		237,660
		<hr/>
<b>Net position</b>	\$	<u><u>4,161,716</u></u>

### Unit data

Units outstanding		147,722,588
Net position, unit price	\$	<u><u>28.17</u></u>

See accompanying notes to financial statements.



## Domestic Equity Pool

**Statement of Changes in Net Position - Unaudited**  
**Period Ended October 31, 2018\***  
*(Amounts in thousands)*

	<b>Month</b>	<b>Year To Date</b>
<b>Investment income</b>		
Net decrease in fair value of investments	\$ (363,915)	\$ (80,547)
Interest, dividends, and other investment income	1,683	11,421
Securities lending income	457	1,604
<b>Total investment income</b>	(361,775)	(67,522)
<b>Expenses</b>		
Investment advisor fees	(124)	(516)
Custodian bank fees	(9)	(36)
Management and other allocated fees	(120)	(488)
Securities lending expenses	(389)	(1,297)
<b>Total expenses</b>	(642)	(2,337)
<b>Net investment loss</b>	(362,417)	(69,859)
<b>Unit transactions</b>		
Proceeds from sale of units	212	10,674
Amount paid for repurchase of units	(173,703)	(343,692)
<b>Net decrease from unit transactions</b>	(173,491)	(333,018)
<b>Decrease in net position</b>	(535,908)	(402,877)
<b>Net position, beginning of period</b>	4,697,624	4,564,593
<b>Net position, end of period</b>	\$ 4,161,716	\$ 4,161,716

*\*The WVIMB operates on a fiscal year beginning on July 1. The "year to date" information is for the period July 1 through the month listed. See accompanying notes to financial statements.*

# Domestic Equity Pool

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## Notes to Financial Statements (Amounts in thousands, except share data)

### NOTE 1. DESCRIPTION OF THE ENTITY

The West Virginia Investment Management Board (IMB) was organized on April 25, 1997, as a public body corporate created by *West Virginia Code §12-6-1* to provide prudent fiscal administration and investment management services to designated state pension funds, the state's Workers' Compensation and Coal Workers' Pneumoconiosis funds, and certain other state government funds.

A Board of Trustees, consisting of thirteen members, governs the IMB. The Governor, the State Auditor, and the State Treasurer are ex officio members of the Board of Trustees. The Governor appoints all other Trustees for a term of six years.

The IMB operates on a fiscal year beginning July 1 and ending June 30.

The accompanying financial statements reflect only the investments and investment related operations of the Pool. They do not reflect activity of the other investment pools under the control of the IMB or the Administrative Fund of the IMB, or any other assets or liabilities, or restrictions thereon, or the various investment pool participants. Accordingly, these financial statements are not intended to and do not present the comprehensive financial position and operations of the IMB or any of the investment pool participants.

The IMB accounts for the Pool under U.S. Generally Accepted Accounting Principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB), using the economic resources measurement focus and the accrual basis of accounting.

The Pool's objective is to exceed, net of external investment management fees, the Russell 3000 Stock Index over three- to five-year periods. Assets are managed by AJO, BlackRock, INTECH Investment Management, LLC, and Westfield Capital Management.

### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

**Investment Valuation** - The IMB reports its investments at fair value in accordance with GASB Statement No. 72. Refer to Note 3 for further discussion and presentation of the reporting requirements under GASB Statement No. 72.

Fair value of the Pool's portfolio securities is determined on the last business day of each month as follows:

- Equity securities are valued at the last sale price or official closing price reported in the market in which they are primarily traded.
- Open-end regulated investment companies or other commingled investment funds are valued at the net asset value of the fund as reported by the fund's administrator.
- Fixed income securities are valued according to prices furnished by independent pricing services to the Pool's custodian. These services determine the security prices by a number of methods including, but not limited to, dealer quotes, live market trading levels when available, live feeds of trade execution data, spreads over U.S. Treasury securities, and other models and formulae appropriate to the specific security type.
- Repurchase agreements and time deposits are valued at cost, provided such amount approximates fair value.

Investments for which the fair value cannot be determined by one of the above listed processes are valued at fair value as determined in accordance with the IMB's established procedures.

**Repurchase Agreements** - In connection with transactions in repurchase agreements, it is the IMB's policy that its designated custodian or mutual third party take possession of the underlying collateral securities, the fair value of which exceeds the principal amount of the repurchase transaction at all times. If the seller defaults, and the fair value of the collateral declines, realization of the collateral by the IMB may be delayed or limited.

# Domestic Equity Pool

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## Notes to Financial Statements (Amounts in thousands, except share data)

### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Securities Lending** - The IMB, through its lending agent, the Bank of New York Mellon (BNYM), loans securities of the Pool to various brokers on a temporary basis. Each transaction for U.S. securities is secured by collateral based on the market value of the securities loaned. The required collateral percentage varies based on the type of collateral received. The required percentage for cash collateral and non-cash collateral consisting of debt obligations and securities issued by the United States Government or its agencies or instrumentalities is at least 102 percent of the market value of the securities loaned. The required percentage of non-cash collateral consisting of equity securities is at least 107 percent of the market value of the securities loaned. Cash collateral received is invested in repurchase agreements, money market mutual funds, and time deposits. Such investments, except for repurchase transactions, are made at the risk of the Pool and, as such, the Pool is liable for investment losses. The lending agent contractually indemnifies the IMB for any repurchase agreement investment losses. Investments made with cash are reported at fair value on the Statement of Net Position. Securities loaned remain on the Statement of Net Position. The IMB has the right under the lending agreement to recover the securities from the borrower on demand. The IMB receives compensation in the form of loan premium fees and income from the investment of the cash collateral. Expenses related to the lending of securities are rebates paid by the lending agent to brokers and the lending agent's fees for its services. Securities lending income and expenses are recorded in the Statement of Changes in Net Position. The IMB also continues to receive dividends on the securities loaned. Gains or losses in the fair value of the securities loaned that may occur during the term of the loans are reflected in the Statement of Changes in Net Position as a net increase (decrease) in fair value of investments.

**Investment Transactions** - Investment transactions are accounted for on a trade date basis. Interest income is recognized on the accrual basis. Dividend income is recognized on the ex-dividend date.

**Use of Estimates** - The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Unit Valuation and Participant Transactions** - The unit price of the Pool is calculated on the last business day of the month by dividing the net position of the Pool by the number of outstanding units. Participant transactions are executed at the unit price at the time of the purchase or redemption.

**Distributions to Participants** - The Pool does not routinely distribute dividends of net investment income.

**Expenses** - The IMB's Trustees adopt an annual budget and fee schedule for services to be provided to all of the investment pools under its management. Each investment pool is charged for its direct investment-related cost and for its allocated share of other expenses. These other expenses are allocated to the individual pools based on asset size. The IMB pays all expenses on behalf of the Pool.

**Income Taxes** - The IMB is a public corporation organized under laws of the State of West Virginia and exempt from U.S. federal and state taxation. Accordingly, no provision for income taxes is required as of October 31, 2018.

### NOTE 3. FAIR VALUE MEASUREMENTS

GASB Statement No. 72 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value of an investment is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., the exit price).

GASB Statement No. 72 establishes a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical financial instruments (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GASB Statement No. 72 are:

# Domestic Equity Pool

## Notes to Financial Statements (Amounts in thousands, except share data)

### NOTE 3. FAIR VALUE MEASUREMENTS (continued)

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities at the reporting date.

Level 2 Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not considered active; observable inputs other than observable quoted prices for the asset or liability; or inputs derived principally from or corroborated by observable market data.

Level 3 Unobservable pricing inputs for assets and liabilities.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

The table below summarizes the valuation of the investment securities in accordance with GASB Statement No. 72 fair value hierarchy levels as of October 31, 2018:

Assets	Level 1	Level 2	Level 3	Total
Commingled equity fund	\$ 1,762,581	\$ -	\$ -	\$ 1,762,581
Common stock	2,377,478	-	-	2,377,478
Money market mutual fund	16,355	-	-	16,355
Securities lending collateral	-	232,204	-	232,204
Total	<u>\$ 4,156,414</u>	<u>\$ 232,204</u>	<u>\$ -</u>	<u>\$ 4,388,618</u>

### NOTE 4. SECURITIES LENDING

The following table presents the amounts of various accounts related to securities lending at October 31, 2018:

	Fair Value
Securities on loan	\$ 452,043
Collateral received:	
Cash	\$ 232,204
Non-cash	244,751
Total collateral received	<u>\$ 476,955</u>

BNYM, as agent for the IMB, loans the IMB's securities to various counterparties. These transactions are executed under Master Securities Lending Agreements (MSLA) which permit BNYM under certain circumstances, such as defaults, to offset amounts payable to the same counterparty against amounts to be received and thus create one single net payment due to or from the counterparty. The amounts listed in the above table represent all securities loaned which are subject to a MSLA on a net payment basis. The IMB has elected not to offset the fair value of the securities on loan against the liability for the return of the collateral on the Statement of Net Position.

# Domestic Equity Pool

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## Notes to Financial Statements (Amounts in thousands, except share data)

### NOTE 5. SCHEDULE OF PARTICIPATION

The following schedule provides the value of participants' accounts in the Pool at October 31, 2018:

<u>Participant</u>	<u>Account Value</u>
Teachers' Retirement System	\$ 1,743,372
Public Employees' Retirement System	1,540,572
West Virginia Retiree Health Benefit Trust Fund	210,332
State Police Death, Disability and Retirement Fund	156,957
Workers' Compensation Old Fund	156,919
Deputy Sheriff's Retirement System	51,205
Judges' Retirement System	47,086
Revenue Shortfall Reserve Fund - Part B	45,254
State Police Retirement System	44,698
West Virginia Department of Environmental Protection Agency	35,529
Coal Workers' Pneumoconiosis Fund	32,781
Public Employees Insurance Agency	22,502
Board of Risk and Insurance Management	20,615
Emergency Medical Services Retirement System	18,689
Wildlife Endowment Fund	14,673
Workers' Compensation Self-Insured Employer Security Risk Pool	7,144
Workers' Compensation Self-Insured Employer Guaranty Risk Pool	4,575
West Virginia Department of Environmental Protection Trust	2,636
Municipal Police Officers' and Firefighters' Retirement System	2,021
Berkeley County Development Authority	1,805
Workers' Compensation Uninsured Employers' Fund	1,753
Municipal Policemen's or Firemen's Pension and Relief Funds	598
Total	<u>\$ 4,161,716</u>



**Financial Statements - Unaudited**

**October 31, 2018**





# International Qualified Pool

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## **Financial Statements - Unaudited October 31, 2018**

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# International Qualified Pool

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## Statement of Net Position - Unaudited October 31, 2018

*(Amounts in thousands, except unit data)*

### Assets

Investment in commingled equity fund at fair value \$ 1,238,825

### Liabilities

Accrued expenses 71

**Net position** \$ 1,238,754

### Unit data

Units outstanding 17,359,306

Net position, unit price \$ 71.36

*See accompanying notes to financial statements.*

## International Qualified Pool

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**Statement of Changes in Net Position - Unaudited**  
**Period Ended October 31, 2018\***  
*(Amounts in thousands)*

	<u>Month</u>	<u>Year To Date</u>
<b>Investment income</b>		
Net decrease in fair value of investments	\$ (99,742)	\$ (89,863)
<b>Expenses</b>		
Investment advisor fees	(531)	(2,252)
Management and other allocated fees	<u>(35)</u>	<u>(143)</u>
<b>Total expenses</b>	<u>(566)</u>	<u>(2,395)</u>
<b>Net investment loss</b>	(100,308)	(92,258)
<b>Unit transactions</b>		
Proceeds from sale of units	36	1,737
Amount paid for repurchase of units	<u>-</u>	<u>(1,609)</u>
<b>Net increase from unit transactions</b>	<u>36</u>	<u>128</u>
<b>Decrease in net position</b>	(100,272)	(92,130)
<b>Net position, beginning of period</b>	<u>1,339,026</u>	<u>1,330,884</u>
<b>Net position, end of period</b>	<u>\$ 1,238,754</u>	<u>\$ 1,238,754</u>

*\*The WVIMB operates on a fiscal year beginning on July 1. The "year to date" information is for the period July 1 through the month listed. See accompanying notes to financial statements.*

# International Qualified Pool

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## Notes to Financial Statements (Amounts in thousands, except share data)

### NOTE 1. DESCRIPTION OF THE ENTITY

The West Virginia Investment Management Board (IMB) was organized on April 25, 1997, as a public body corporate created by *West Virginia Code §12-6-1* to provide prudent fiscal administration and investment management services to designated state pension funds, the state's Workers' Compensation and Coal Workers' Pneumoconiosis funds, and certain other state government funds.

A Board of Trustees, consisting of thirteen members, governs the IMB. The Governor, the State Auditor, and the State Treasurer are ex officio members of the Board of Trustees. The Governor appoints all other Trustees for a term of six years.

The IMB operates on a fiscal year beginning July 1 and ending June 30.

The accompanying financial statements reflect only the investments and investment related operations of the IMB's International Qualified Pool (Pool). They do not reflect activity of the other investment pools under the control of the IMB or the Administrative Fund of the IMB, or any other assets or liabilities, or restrictions thereon, or the various investment pool participants. Accordingly, these financial statements are not intended to and do not present the comprehensive financial position and operations of the IMB or any of the investment pool participants.

The IMB accounts for the Pool under U.S. Generally Accepted Accounting Principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB), using the economic resources measurement focus and the accrual basis of accounting.

The Pool invests in The Silchester International Investors International Value Equity Group Trust (Silchester). The Pool's objective is to produce investment returns that exceed the Morgan Stanley Capital International's Europe Australasia Far East Index by 200 basis points on an annualized basis over three- to five-year periods, net of external investment management fees. Only "qualified participants" (as defined by the *Internal Revenue Code*) may invest in the Pool. Silchester invests in a diversified developed country, non-U.S. equity, bottom-up value oriented portfolio of securities with limited exposure to emerging markets and no unreasonable concentration exposure to any single issuer or country. Redemptions from Silchester can be made monthly with ten days advance written notice. Redemptions will generally be made within seven business days following month-end.

### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

**Investment Valuation** - The IMB reports its investments at fair value in accordance with GASB Statement No. 72. Refer to Note 3 for further discussion and presentation of the reporting requirements under GASB Statement No. 72.

Commingled investment funds are valued on the last business day of each month at the net asset value of the fund as reported by the fund's administrator. Investments for which the fair value cannot be determined are valued at fair value in accordance with the IMB's established procedures.

**Investment Transactions** - Investment transactions are accounted for on a trade date basis.

**Use of Estimates** - The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Unit Valuation and Participant Transactions** - The unit price of the Pool is calculated on the last business day of the month by dividing the net position of the Pool by the number of outstanding units. Participant transactions are executed at the unit price at the time of the purchase or redemption.

**Distributions to Participants** - The Pool does not routinely distribute dividends of net investment income.

# International Qualified Pool

## Notes to Financial Statements (Amounts in thousands, except share data)

### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Expenses** - The IMB's Trustees adopt an annual budget and fee schedule for services to be provided to all of the investment pools under its management. Each investment pool is charged for its direct investment-related cost and for its allocated share of other expenses. These other expenses are allocated to the individual pools based on asset size. The IMB pays all expenses on behalf of the Pool. In addition to these direct and allocated expenses, the Pool bears certain expenses indirectly, such as fees of the investment fund in which the Pool invests that are reflected in the reported net asset value of such fund.

**Income Taxes** - The IMB is a public corporation organized under laws of the State of West Virginia and exempt from U.S. federal and state taxation. Accordingly, no provision for income taxes is required as of October 31, 2018.

### NOTE 3. FAIR VALUE MEASUREMENTS

GASB Statement No. 72 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value of an investment is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., the exit price).

GASB Statement No. 72 establishes a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical financial instruments (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GASB Statement No. 72 are:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities at the reporting date.

Level 2 Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not considered active; observable inputs other than observable quoted prices for the asset or liability; or inputs derived principally from or corroborated by observable market data.

Level 3 Unobservable pricing inputs for assets and liabilities.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

U.S. GAAP does not require the Pool to categorize within the fair value hierarchy table investments for which fair value is measured using the net asset value per share as the practical expedient. The investment in Silchester is valued using the net asset value per share. As Silchester is the only investment in the Pool, a fair value hierarchy table is not presented.

### NOTE 4. SCHEDULE OF PARTICIPATION

The following schedule provides the value of participants' accounts in the Pool at October 31, 2018:

<u>Participant</u>	<u>Account Value</u>
Teachers' Retirement System	\$ 599,163
Public Employees' Retirement System	531,233
State Police Death, Disability and Retirement Fund	52,891
Deputy Sheriff's Retirement System	17,443
Judges' Retirement System	16,200
State Police Retirement System	14,826
Emergency Medical Services Retirement System	6,204
Municipal Police Officers' and Firefighters' Retirement System	592
Municipal Policemen's or Firemen's Pension and Relief Funds	202
Total	<u>\$ 1,238,754</u>



**Financial Statements - Unaudited**

**October 31, 2018**





# International Nonqualified Pool

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## **Financial Statements - Unaudited October 31, 2018**

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# International Nonqualified Pool

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**Statement of Net Position - Unaudited**  
**October 31, 2018**  
*(Amounts in thousands, except unit data)*

**Assets**

Investment in commingled equity fund at fair value \$ 200,510

**Liabilities**

Accrued expenses 12

**Net position** \$ 200,498

**Unit data**

Units outstanding 3,065,432

Net position, unit price \$ 65.41

*See accompanying notes to financial statements.*

## International Nonqualified Pool

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### Statement of Changes in Net Position - Unaudited

Period Ended October 31, 2018\*

(Amounts in thousands, except unit data)

	<u>Month</u>	<u>Year To Date</u>
<b>Investment income</b>		
Net decrease in fair value of investments	\$ (16,011)	\$ (14,494)
<b>Expenses</b>		
Investment advisor fees	(99)	(414)
Management and other allocated fees	<u>(5)</u>	<u>(23)</u>
<b>Total expenses</b>	<u>(104)</u>	<u>(437)</u>
<b>Net investment loss</b>	(16,115)	(14,931)
<b>Unit transactions</b>		
Proceeds from sale of units	277	3,983
Amount paid for repurchase of units	<u>(271)</u>	<u>(3,962)</u>
<b>Net increase from unit transactions</b>	<u>6</u>	<u>21</u>
<b>Decrease in net position</b>	(16,109)	(14,910)
<b>Net position, beginning of period</b>	<u>216,607</u>	<u>215,408</u>
<b>Net position, end of period</b>	<u>\$ 200,498</u>	<u>\$ 200,498</u>

\*The WVIMB operates on a fiscal year beginning on July 1. The "year to date" information is for the period July 1 through the month listed. See accompanying notes to financial statements.

# International Nonqualified Pool

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## Notes to Financial Statements (Amounts in thousands, except share data)

### NOTE 1. DESCRIPTION OF THE ENTITY

The West Virginia Investment Management Board (IMB) was organized on April 25, 1997, as a public body corporate created by *West Virginia Code §12-6-1* to provide prudent fiscal administration and investment management services to designated state pension funds, the state's Workers' Compensation and Coal Workers' Pneumoconiosis funds, and certain other state government funds.

A Board of Trustees, consisting of thirteen members, governs the IMB. The Governor, the State Auditor, and the State Treasurer are ex officio members of the Board of Trustees. The Governor appoints all other Trustees for a term of six years.

The IMB operates on a fiscal year beginning July 1 and ending June 30.

The accompanying financial statements reflect only the investments and investment related operations of the IMB's International Nonqualified Pool (Pool). They do not reflect activity of the other investment pools under the control of the IMB or the Administrative Fund of the IMB, or any other assets or liabilities, or restrictions thereon, or the various investment pool participants. Accordingly, these financial statements are not intended to and do not present the comprehensive financial position and operations of the IMB or any of the investment pool participants.

The IMB accounts for the Pool under U.S. Generally Accepted Accounting Principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB), using the economic resources measurement focus and the accrual basis of accounting.

The Pool invests in The Silchester International Investors International Value Equity Trust (Silchester). The Pool's objective is to produce investment returns that exceed the Morgan Stanley Capital International's Europe Australasia Far East Index by 200 basis points on an annualized basis over three- to five-year periods, net of external investment management fees. The Pool exists for participants who are not "qualified" (as defined by the *Internal Revenue Code*). Silchester invests in a diversified developed country, non-U.S. equity, bottom-up value oriented portfolio of securities with limited exposure to emerging markets and no unreasonable concentration exposure to any single issuer or country. Redemptions from Silchester can be made monthly with ten days advance written notice. Redemptions will generally be made within seven business days following month-end.

### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

**Investment Valuation** - The IMB reports its investments at fair value in accordance with GASB Statement No. 72. Refer to Note 3 for further discussion and presentation of the reporting requirements under GASB Statement No. 72.

Commingled investment funds are valued on the last business day of each month at the net asset value of the fund as reported by the fund's administrator. Investments for which the fair value cannot be determined are valued at fair value in accordance with the IMB's established procedures.

**Investment Transactions** - Investment transactions are accounted for on a trade date basis.

**Use of Estimates** - The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Unit Valuation and Participant Transactions** - The unit price of the Pool is calculated on the last business day of the month by dividing the net position of the Pool by the number of outstanding units. Participant transactions are executed at the unit price at the time of the purchase or redemption.

**Distributions to Participants** - The Pool does not routinely distribute dividends of net investment income.

# International Nonqualified Pool

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## Notes to Financial Statements

*(Amounts in thousands, except share data)*

### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Expenses** - The IMB's Trustees adopt an annual budget and fee schedule for services to be provided to all of the investment pools under its management. Each investment pool is charged for its direct investment-related cost and for its allocated share of other expenses. These other expenses are allocated to the individual pools based on asset size. The IMB pays all expenses on behalf of the Pool. In addition to these direct and allocated expenses, the Pool bears certain expenses indirectly, such as fees of the investment fund in which the Pool invests that are reflected in the reported net asset value of such fund.

**Income Taxes** - The IMB is a public corporation organized under laws of the State of West Virginia and exempt from U.S. federal and state taxation. Accordingly, no provision for income taxes is required as of October 31, 2018.

### NOTE 3. FAIR VALUE MEASUREMENTS

GASB Statement No. 72 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value of an investment is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., the exit price).

GASB Statement No. 72 establishes a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical financial instruments (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GASB Statement No. 72 are:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities at the reporting date.

Level 2 Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not considered active; observable inputs other than observable quoted prices for the asset or liability; or inputs derived principally from or corroborated by observable market data.

Level 3 Unobservable pricing inputs for assets and liabilities.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

U.S. GAAP does not require the Pool to categorize within the fair value hierarchy table investments for which fair value is measured using the net asset value per share as the practical expedient. The investment in Silchester is valued using the net asset value per share. As Silchester is the only investment in the Pool, a fair value hierarchy table is not presented.

# International Nonqualified Pool

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## Notes to Financial Statements (Amounts in thousands, except share data)

### NOTE 4. SCHEDULE OF PARTICIPATION

The following schedule provides the value of participants' accounts in the Pool at October 31, 2018:

<u>Participant</u>	<u>Account Value</u>
West Virginia Retiree Health Benefit Trust Fund	\$ 74,037
Workers' Compensation Old Fund	59,684
Revenue Shortfall Reserve Fund - Part B	15,758
West Virginia Department of Environmental Protection Agency	12,289
Coal Workers' Pneumoconiosis Fund	12,037
Public Employees Insurance Agency	7,813
Board of Risk and Insurance Management	7,175
Wildlife Endowment Fund	5,265
Workers' Compensation Self-Insured Employer Security Risk Pool	2,609
Workers' Compensation Self-Insured Employer Guaranty Risk Pool	1,640
West Virginia Department of Environmental Protection Trust	949
Berkeley County Development Authority	634
Workers' Compensation Uninsured Employers' Fund	608
Total	<u>\$ 200,498</u>

**Financial Statements - Unaudited**

**October 31, 2018**





# International Equity Pool

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**Financial Statements - Unaudited  
October 31, 2018**

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# International Equity Pool

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## Statement of Net Position - Unaudited October 31, 2018

(Amounts in thousands, except unit data)

### Assets

Investments, at fair value:	
Equity investments	\$ 2,921,293
Money market mutual fund	27,828
Securities lending collateral	84,584
Cash	10,123
Receivables:	
Investments sold	9,377
Dividends and other investment income	13,417
	<hr/>
<b>Total assets</b>	<b>3,066,622</b>

### Liabilities

Accrued expenses	6,074
Accrued capital gains taxes	1,545
Payable for investments purchased	5,928
Payable upon return of securities loaned	84,584
	<hr/>
<b>Total liabilities</b>	<b>98,131</b>
	<hr/>
<b>Net position</b>	<b>\$ 2,968,491</b>

### Unit data

Units outstanding	102,067,959
Net position, unit price	<hr/> <hr/> <b>\$ 29.08</b>

See accompanying notes to financial statements.

# International Equity Pool

**Statement of Changes in Net Position - Unaudited**  
**Period Ended October 31, 2018\***  
*(Amounts in thousands)*

	<b>Month</b>	<b>Year To Date</b>
<b>Investment income</b>		
Net decrease in fair value of investments	\$ (252,704)	\$ (281,954)
Interest, dividends, and other investment income	1,640	31,497
Securities lending income	297	1,169
<b>Total investment income</b>	(250,767)	(249,288)
<b>Expenses</b>		
Investment advisor fees	(1,094)	(5,638)
Custodian bank fees	(130)	(607)
Management and other allocated fees	(85)	(341)
Securities lending expenses	(138)	(529)
<b>Total expenses</b>	(1,447)	(7,115)
<b>Net investment loss</b>	(252,214)	(256,403)
<b>Unit transactions</b>		
Proceeds from sale of units	22,744	243,887
Amount paid for repurchase of units	-	(5,821)
<b>Net increase from unit transactions</b>	22,744	238,066
<b>Decrease in net position</b>	(229,470)	(18,337)
<b>Net position, beginning of period</b>	3,197,961	2,986,828
<b>Net position, end of period</b>	\$ 2,968,491	\$ 2,968,491

*\*The WVIMB operates on a fiscal year beginning on July 1. The "year to date" information is for the period July 1 through the month listed. See accompanying notes to financial statements.*

# International Equity Pool

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## Notes to Financial Statements

(Amounts in thousands, except share data)

### NOTE 1. DESCRIPTION OF THE ENTITY

The West Virginia Investment Management Board (IMB) was organized on April 25, 1997, as a public body corporate created by *West Virginia Code §12-6-1* to provide prudent fiscal administration and investment management services to designated state pension funds, the state's Workers' Compensation and Coal Workers' Pneumoconiosis funds, and certain other state government funds.

A Board of Trustees, consisting of thirteen members, governs the IMB. The Governor, the State Auditor, and the State Treasurer are ex officio members of the Board of Trustees. The Governor appoints all other Trustees for a term of six years.

The IMB operates on a fiscal year beginning July 1 and ending June 30.

The accompanying financial statements reflect only the investments and investment related operations of the IMB's International Equity Pool (Pool). They do not reflect activity of the other investment pools under the control of the IMB or the Administrative Fund of the IMB, or any other assets or liabilities, or restrictions thereon, or the various investment pool participants. Accordingly, these financial statements are not intended to and do not present the comprehensive financial position and operations of the IMB or any of the investment pool participants.

The IMB accounts for the Pool under U.S. Generally Accepted Accounting Principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB), using the economic resources measurement focus and the accrual basis of accounting.

The Pool invests in the equities of international companies. Assets are managed by Acadian Asset Management, LLC, Axiom International Investors, LLC, Brandes Investment Partners, L.P., LSV Asset Management, and Oberweis Asset Management, Inc. The objective of the Pool is to exceed, net of external investment management fees, Morgan Stanley Capital International's All Country World Free Ex US Index over three- to five-year periods.

### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

**Investment Valuation** - The IMB reports its investments at fair value in accordance with GASB Statement No. 72. Refer to Note 3 for further discussion and presentation of the reporting requirements under GASB Statement No. 72.

Fair value of the Pool's portfolio securities is determined on the last business day of each month as follows:

- Equity securities are valued at the last sale price or official closing price reported in the market in which they are primarily traded.
- Open-end regulated investment companies or other commingled investment funds are valued at the net asset value of the fund as reported by the fund's administrator.
- Equity securities that trade in non-U.S. markets are valued in U.S. dollars using period end spot market exchange rates as supplied by the Pool's custodian.
- Fixed income securities are valued according to prices furnished by independent pricing services to the Pool's custodian. These services determine the security prices by a number of methods including, but not limited to, dealer quotes, live market trading levels when available, live feeds of trade execution data, spreads over U.S. Treasury securities, and other models and formulae appropriate to the specific security type.
- Repurchase agreements and time deposits are valued at cost, provided such amount approximates fair value.

Investments for which the fair value cannot be determined by one of the above listed processes are valued at fair value as determined in accordance with the IMB's established procedures.

# International Equity Pool

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## Notes to Financial Statements (Amounts in thousands, except share data)

### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Foreign Currency** - Amounts denominated in or expected to settle in foreign currencies are translated into U.S. dollars at exchange rates reported by the Pool's custodian, Bank of New York Mellon, on the following basis:

- Market value of investment securities, other assets and liabilities - at the closing rate of exchange at the valuation date.
- Purchases and sales of investment securities, income and expenses - at the rate of exchange prevailing on the respective dates of such transactions.

**Repurchase Agreements** - In connection with transactions in repurchase agreements, it is the IMB's policy that its designated custodian or mutual third party take possession of the underlying collateral securities, the fair value of which exceeds the principal amount of the repurchase transaction at all times. If the seller defaults, and the fair value of the collateral declines, realization of the collateral by the IMB may be delayed or limited.

**Securities Lending** - The IMB, through its lending agent, the Bank of New York Mellon (BNYM), loans securities of the Pool to various brokers on a temporary basis. Each transaction for international securities is secured by collateral based on the market value of the securities loaned. The required collateral percentage varies based on the type of collateral received. The required percentage for cash collateral and non-cash collateral consisting of debt obligations and securities issued by the United States Government or its agencies or instrumentalities is 105 percent unless the foreign securities loaned are denominated and payable in U.S. Dollars, then the collateral shall be at least 102 percent of the market value of the securities loaned. The required percentage of non-cash collateral consisting of equity securities is at least 107 percent of the market value of the securities loaned. Cash collateral received is invested in repurchase agreements, money market mutual funds, and time deposits. Such investments, except for repurchase transactions, are made at the risk of the Pool and, as such, the Pool is liable for investment losses. The lending agent contractually indemnifies the IMB for any repurchase agreement investment losses. Investments made with cash are reported at fair value on the Statement of Net Position. Securities loaned remain on the Statement of Net Position. The IMB has the right under the lending agreement to recover the securities from the borrower on demand. The IMB receives compensation in the form of loan premium fees and income from the investment of the cash collateral. Expenses related to the lending of securities are rebates paid by the lending agent to brokers and the lending agent's fees for its services. Securities lending income and expenses are recorded in the Statement of Changes in Net Position. The IMB also continues to receive interest or dividends on the securities loaned. Gains or losses in the fair value of the securities loaned that may occur during the term of the loans are reflected in the Statement of Changes in Net Position as a net increase (decrease) in fair value of investments.

**Foreign Currency Spot Contracts** - A foreign currency contract is an agreement between two parties to exchange different currencies at a specified exchange rate at an agreed upon future date. The managers, as listed in Note 1, enter into such contracts to correspond to investment transactions trading in foreign currencies. Risks associated with such contracts include movement in the value of the foreign currency relative to the U.S. dollar and the ability of the counterparty to perform. These contracts have relatively short durations and are valued at the prevailing market exchange rates at month end.

**Investment Transactions** - Investment transactions are accounted for on a trade date basis. Interest income is recognized on the accrual basis. Dividend income is recognized on the ex-dividend date.

**Use of Estimates** - The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Unit Valuation and Participant Transactions** - The unit price of the Pool is calculated on the last business day of the month by dividing the net position of the Pool by the number of outstanding units. Participant transactions are executed at the unit price at the time of the purchase or redemption.

**Distributions to Participants** - The Pool does not routinely distribute dividends of net investment income.

# International Equity Pool

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## Notes to Financial Statements

*(Amounts in thousands, except share data)*

### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Expenses** - The IMB's Trustees adopt an annual budget and fee schedule for services to be provided to all of the investment pools under its management. Each investment pool is charged for its direct investment-related cost and for its allocated share of other expenses. These other expenses are allocated to the individual pools based on asset size. The IMB pays all expenses on behalf of the Pool.

**Income Taxes** - The IMB is a public corporation organized under laws of the State of West Virginia and exempt from U.S. federal and state taxation. Accordingly, no provision for U.S. federal or state income taxes is required as of October 31, 2018.

In certain foreign countries the Pool's dividend income and capital gains may be taxable. Taxes on dividend income are generally withheld from the payments and as a result there is no provision recorded for these taxes. In certain cases there may be a full or partial reclaim available for the withheld taxes. Capital gains taxes, if any, on sales of securities may be assessed and paid concurrent with the sale or upon the filing of a return with the taxing authority. In countries where the IMB is liable for capital gains taxes, the IMB will estimate and accrue a capital gains tax liability for unrealized gains on securities held in such countries. The outstanding reclaims and accrued capital gains taxes are reported on the Statement of Net Position. Dividend income is reported net of non-reclaimable taxes withheld on the Statement of Changes in Net Position. The net increase (decrease) in fair value of investments is reported net of capital gains taxes on the Statement of Changes in Net Position.

### NOTE 3. FAIR VALUE MEASUREMENTS

GASB Statement No. 72 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value of an investment is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., the exit price).

GASB Statement No. 72 establishes a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical financial instruments (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GASB Statement No. 72 are:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities at the reporting date.

Level 2 Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not considered active; observable inputs other than observable quoted prices for the asset or liability; or inputs derived principally from or corroborated by observable market data.

Level 3 Unobservable pricing inputs for assets and liabilities.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

# International Equity Pool

## Notes to Financial Statements (Amounts in thousands, except share data)

### NOTE 3. FAIR VALUE MEASUREMENTS (continued)

The table below summarizes the valuation of the investment securities in accordance with GASB Statement No. 72 fair value hierarchy levels as of October 31, 2018:

Assets	Level 1	Level 2	Level 3	Total
Common stock	\$ 2,857,694	\$ -	\$ -	\$ 2,857,694
Money market mutual fund	27,828	-	-	27,828
Preferred stock	62,548	-	-	62,548
Rights	1,051	-	-	1,051
Securities lending collateral	-	84,584	-	84,584
Total	<u>\$ 2,949,121</u>	<u>\$ 84,584</u>	<u>\$ -</u>	<u>\$ 3,033,705</u>

### NOTE 4. SECURITIES LENDING

The following table presents the amounts of various accounts related to securities lending at October 31, 2018:

	Fair Value
Securities on loan	\$ 397,993
Collateral received:	
Cash	\$ 84,584
Non-cash	359,334
Total collateral received	<u>\$ 443,918</u>

BNYM, as agent for the IMB, loans the IMB's securities to various counterparties. These transactions are executed under Master Securities Lending Agreements (MSLA) which permit BNYM under certain circumstances, such as defaults, to offset amounts payable to the same counterparty against amounts to be received and thus create one single net payment due to or from the counterparty. The amounts listed in the above table represent all securities loaned which are subject to a MSLA on a net payment basis. The IMB has elected not to offset the fair value of the securities on loan against the liability for the return of the collateral on the Statement of Net Position.

# International Equity Pool

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## Notes to Financial Statements (Amounts in thousands, except share data)

### NOTE 5. SCHEDULE OF PARTICIPATION

The following schedule provides the value of participants' accounts in the Pool at October 31, 2018:

<u>Participant</u>	<u>Account Value</u>
Teachers' Retirement System	\$ 1,255,776
Public Employees' Retirement System	1,100,487
West Virginia Retiree Health Benefit Trust Fund	148,088
State Police Death, Disability and Retirement Fund	110,759
Workers' Compensation Old Fund	105,674
Deputy Sheriff's Retirement System	36,668
Judges' Retirement System	33,949
State Police Retirement System	31,973
Revenue Shortfall Reserve Fund - Part B	31,022
West Virginia Department of Environmental Protection Agency	24,773
Coal Workers' Pneumoconiosis Fund	21,952
Public Employees Insurance Agency	15,713
Board of Risk and Insurance Management	14,259
Emergency Medical Services Retirement System	13,087
Wildlife Endowment Fund	10,078
Workers' Compensation Self-Insured Employer Security Risk Pool	4,858
Workers' Compensation Self-Insured Employer Guaranty Risk Pool	3,131
West Virginia Department of Environmental Protection Trust	1,830
Municipal Police Officers' and Firefighters' Retirement System	1,494
Berkeley County Development Authority	1,275
Workers' Compensation Uninsured Employers' Fund	1,222
Municipal Policemen's or Firemen's Pension and Relief Funds	423
Total	<u>\$ 2,968,491</u>



**Financial Statements - Unaudited**

**October 31, 2018**



# Short-Term Fixed Income Pool

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## Financial Statements - Unaudited October 31, 2018

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# Short-Term Fixed Income Pool

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## Statement of Net Position - Unaudited

October 31, 2018

(Amounts in thousands, except unit data)

### Assets

Investments, at amortized cost:		
U.S. Treasury and government agency bonds	\$	94,785
Commercial paper		26,723
Repurchase agreement		6,724
Cash		<u>1</u>
	<b>Total assets</b>	<b>128,233</b>

### Liabilities

Payable for investments purchased		9,966
Accrued expenses		<u>37</u>
	<b>Total liabilities</b>	<b><u>10,003</u></b>
	<b>Net position</b>	<b><u>\$ 118,230</u></b>

### Unit data

Units outstanding		118,230,165
Net position, unit price	\$	<u><u>1.00</u></u>

See accompanying notes to financial statements.

## Short-Term Fixed Income Pool

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**Statement of Changes in Net Position - Unaudited**  
**Period Ended October 31, 2018\***  
*(Amounts in thousands)*

	<u>Month</u>	<u>Year To Date</u>
<b>Investment income</b>	\$ 299	\$ 1,114
<b>Expenses</b>		
Investment advisor fees	(7)	(28)
Custodian bank fees	(1)	(4)
Management and other allocated fees	(4)	(17)
	<u>(12)</u>	<u>(49)</u>
<b>Total expenses</b>		
	(12)	(49)
<b>Net investment income</b>	287	1,065
<b>Distributions to unitholders</b>	(287)	(1,065)
<b>Unit transactions</b>		
Proceeds from sale of units	165,791	453,433
Reinvestment of distributions	287	1,065
Amount paid for repurchase of units	(122,866)	(554,537)
	<u>43,212</u>	<u>(100,039)</u>
<b>Net increase (decrease) from unit transactions</b>		
	43,212	(100,039)
<b>Increase (decrease) in net position</b>	43,212	(100,039)
<b>Net position, beginning of period</b>	<u>75,018</u>	<u>218,269</u>
<b>Net position, end of period</b>	<u>\$ 118,230</u>	<u>\$ 118,230</u>

*\*The WVIMB operates on a fiscal year beginning on July 1. The "year to date" information is for the period July 1 through the month listed. See accompanying notes to financial statements.*

# Short-Term Fixed Income Pool

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## Notes to Financial Statements (Amounts in thousands, except share data)

### NOTE 1. DESCRIPTION OF THE ENTITY

The West Virginia Investment Management Board (IMB) was organized on April 25, 1997, as a public body corporate created by *West Virginia Code §12-6-1* to provide prudent fiscal administration and investment management services to designated state pension funds, the state's Workers' Compensation and Coal Workers' Pneumoconiosis funds, and certain other state government funds.

A Board of Trustees, consisting of thirteen members, governs the IMB. The Governor, the State Auditor, and the State Treasurer are ex officio members of the Board of Trustees. The Governor appoints all other Trustees for a term of six years.

The IMB operates on a fiscal year beginning July 1 and ending June 30.

The accompanying financial statements reflect only the investments and investment related operations of the IMB's Short-Term Fixed Income Pool (Pool). They do not reflect activity of the other investment pools under the control of the IMB or the Administrative Fund of the IMB, or any other assets or liabilities, or restrictions thereon, or the various investment pool participants. Accordingly, these financial statements are not intended to and do not present the comprehensive financial position and operations of the IMB or any of the investment pool participants.

The IMB accounts for the Pool under U.S. Generally Accepted Accounting Principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB), using the economic resources measurement focus and the accrual basis of accounting.

The main objective of the Pool is to maintain sufficient liquidity to fund withdrawals by the participant plans and to invest cash contributions until such time as the money can be transferred to other asset classes without sustaining capital losses. JP Morgan Investment Advisors, Inc. manages the Pool. The Pool's investment objective, net of external investment management fees, is to meet or exceed the Citigroup 90-Day Treasury Bill Index.

### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

**Investment Valuation** - The IMB reports its investments at amortized cost provided such amounts approximate fair value in accordance with GASB Statements No. 72 and No. 79. The basic premise underlying the use of the amortized cost method of valuation is that high-quality, short-term debt securities held until maturity will eventually return to their amortized cost value, regardless of any current disparity between the amortized cost value and market value, and would not ordinarily be expected to fluctuate significantly in value. The Pool values its securities at amortized cost so long as the deviation between the amortized cost and current market value remains minimal and results in the computation of a share price that represents fairly the stable net position value per share of \$1. Refer to Note 3 for further discussion and presentation of the reporting requirements under GASB Statement No. 72.

**Repurchase Agreements** - In connection with transactions in repurchase agreements, it is the IMB's policy that its designated custodian or mutual third party take possession of the underlying collateral securities, the fair value of which exceeds the principal amount of the repurchase transaction at all times. If the seller defaults, and the fair value of the collateral declines, realization of the collateral by the IMB may be delayed or limited.

**Investment Transactions** - Investment transactions are accounted for on a trade date basis. Interest income, including the accretion of discounts and amortization of premiums, is accrued daily as earned. Dividend income is recognized on the ex-dividend date.

**Use of Estimates** - The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

# Short-Term Fixed Income Pool

## Notes to Financial Statements

(Amounts in thousands, except share data)

### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Unit Valuation and Participant Transactions** – The unit price of the Pool is calculated daily by dividing the net position of the Pool by the number of outstanding units. Managements' policy is for the Pool to maintain a stable unit price of \$1 per unit. If the calculated unit price rounds to \$1, then Participant transactions are executed at this price.

**Distributions to Participants** – Daily net investment income is declared as a dividend and distributed to the participants of the Pool on the last day of the month. Distributions are paid in the form of reinvestments in the Pool and have been included in distributions to unitholders and reinvestment of distributions as presented on the Statement of Changes in Net Position.

**Expenses** - The IMB's Trustees adopt an annual budget and fee schedule for services to be provided to all of the investment pools under its management. Each investment pool is charged for its direct investment-related cost and for its allocated share of other expenses. These other expenses are allocated to the individual pools based on asset size. The IMB pays all expenses on behalf of the Pool.

**Income Taxes** - The IMB is a public corporation organized under laws of the State of West Virginia and exempt from U.S. federal and state taxation. Accordingly, no provision for income taxes is required as of October 31, 2018.

### NOTE 3. FAIR VALUE MEASUREMENTS

GASB Statement No. 72 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value of an investment is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., the exit price).

GASB Statement No. 72 established a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical financial instruments (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GASB Statement No. 72 are:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities at the reporting date.

Level 2 Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not considered active; observable inputs other than observable quoted prices for the asset or liability; or inputs derived principally from or corroborated by observable market data.

Level 3 Unobservable pricing inputs for assets and liabilities.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

The table below summarizes the valuation of the investments in accordance with GASB Statement No. 72 fair value hierarchy levels as of October 31, 2018:

Assets	Level 1	Level 2	Level 3	Total
Commercial paper	\$ -	\$ 26,723	\$ -	\$ 26,723
Repurchase agreement	-	6,724	-	6,724
U.S. Government agency bonds	-	64,921	-	64,921
U.S. Treasury bonds	-	29,864	-	29,864
Total	\$ -	\$ 128,232	\$ -	\$ 128,232

## Short-Term Fixed Income Pool

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### Notes to Financial Statements (Amounts in thousands, except share data)

#### NOTE 4. SCHEDULE OF PARTICIPATION

The following schedule provides the value of participants' accounts in the Pool at October 31, 2018:

<u>Participant</u>	<u>Account Value</u>
Workers' Compensation Old Fund	\$ 38,727
Public Employees' Retirement System	20,191
Teachers' Retirement System	14,246
Coal Workers' Pneumoconiosis Fund	10,539
West Virginia Retiree Health Benefit Trust Fund	10,017
West Virginia Prepaid Tuition Trust Fund	7,713
Board of Risk and Insurance Management	7,686
Workers' Compensation Self-Insured Employer Security Risk Pool	2,360
Workers' Compensation Self-Insured Employer Guaranty Risk Pool	1,797
Workers' Compensation Uninsured Employers' Fund	1,356
Municipal Policemen's or Firemen's Pension and Relief Funds	1,350
State Police Retirement System	845
Judges' Retirement System	406
State Police Death, Disability and Retirement Fund	333
Deputy Sheriff's Retirement System	304
Municipal Police Officers' and Firefighters' Retirement System	147
Wildlife Endowment Fund	109
Emergency Medical Services Retirement System	104
Total	<u>\$ 118,230</u>



**Financial Statements - Unaudited**

**October 31, 2018**



# Total Return Fixed Income Pool

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## Financial Statements - Unaudited October 31, 2018

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# Total Return Fixed Income Pool

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## Statement of Net Position - Unaudited

October 31, 2018

(Amounts in thousands, except unit data)

### Assets

Investments, at fair value:	
Fixed income investments	\$ 2,289,069
Derivative instruments	22,820
Money market mutual fund	28,089
Equity investments	10,672
Securities lending collateral	156,959
Cash	40,913
Receivables:	
Interest, dividends, and other investment income	19,947
Investments sold	22,909
	<hr/>
<b>Total assets</b>	<b>2,591,378</b>

### Liabilities

Investments in derivative instruments at fair value	26,912
Accrued expenses	1,910
Payable for investments purchased	5,911
Payable upon return of securities loaned	156,959
	<hr/>
<b>Total liabilities</b>	<b>191,692</b>
	<hr/>
<b>Net position</b>	<b>\$ 2,399,686</b>

### Unit data

Units outstanding	164,203,285
Net position, unit price	<hr/> <hr/> <b>\$ 14.61</b>

See accompanying notes to financial statements.

## Total Return Fixed Income Pool

**Statement of Changes in Net Position - Unaudited**  
**Period Ended October 31, 2018\***  
*(Amounts in thousands)*

	<b>Month</b>	<b>Year To Date</b>
<b>Investment income</b>		
Net decrease in fair value of investments	\$ (33,568)	\$ (43,996)
Interest, dividends, and other investment income	8,571	31,584
Securities lending income	281	1,155
<b>Total investment income</b>	(24,716)	(11,257)
<b>Expenses</b>		
Investment advisor fees	(435)	(1,751)
Custodian bank fees	(16)	(63)
Management and other allocated fees	(65)	(258)
Securities lending expenses	(240)	(958)
<b>Total expenses</b>	(756)	(3,030)
<b>Net investment loss</b>	(25,472)	(14,287)
<b>Unit transactions</b>		
Proceeds from sale of units	8,248	75,410
Amount paid for repurchase of units	(8,287)	(26,911)
<b>Net increase (decrease) from unit transactions</b>	(39)	48,499
<b>Increase (decrease) in net position</b>	(25,511)	34,212
<b>Net position, beginning of period</b>	2,425,197	2,365,474
<b>Net position, end of period</b>	\$ 2,399,686	\$ 2,399,686

*\*The WVIMB operates on a fiscal year beginning on July 1. The "year to date" information is for the period July 1 through the month listed. See accompanying notes to financial statements.*

# Total Return Fixed Income Pool

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## Notes to Financial Statements

(Amounts in thousands, except share data)

### NOTE 1. DESCRIPTION OF THE ENTITY

The West Virginia Investment Management Board (IMB) was organized on April 25, 1997, as a public body corporate created by *West Virginia Code §12-6-1* to provide prudent fiscal administration and investment management services to designated state pension funds, the state's Workers' Compensation and Coal Workers' Pneumoconiosis funds, and certain other state government funds.

A Board of Trustees, consisting of thirteen members, governs the IMB. The Governor, the State Auditor, and the State Treasurer are ex officio members of the Board of Trustees. The Governor appoints all other Trustees for a term of six years.

The IMB operates on a fiscal year beginning July 1 and ending June 30.

The accompanying financial statements reflect only the investments and investment related operations of the IMB's Total Return Fixed Income Pool (Pool). They do not reflect activity of the other investment pools under the control of the IMB or the Administrative Fund of the IMB, or any other assets or liabilities, or restrictions thereon, or the various investment pool participants. Accordingly, these financial statements are not intended to and do not present the comprehensive financial position and operations of the IMB or any of the investment pool participants.

The IMB accounts for the Pool under U.S. Generally Accepted Accounting Principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB), using the economic resources measurement focus and the accrual basis of accounting.

The main objective of the Pool is to generate investment income, provide stability and diversification, but not at the expense of total return. Dodge & Cox, Franklin Templeton Investments, and Western Asset Management Company manage the Pool. The Pool's investment objective, net of external investment management fees, is to meet or exceed the Bloomberg Barclays U.S. Universal Bond Index.

### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

**Investment Valuation** - The IMB reports its investments at fair value in accordance with GASB Statement No. 72. Refer to Note 4 for further discussion and presentation of the reporting requirements under GASB Statement No. 72.

Fair value of the Pool's portfolio securities is determined on the last business day of each month as follows:

- Fixed income securities are valued according to prices furnished by independent pricing services to the Pool's custodian. These services determine the security prices by a number of methods including, but not limited to, dealer quotes, live market trading levels when available, live feeds of trade execution data, spreads over U.S. Treasury securities, and other models and formulae appropriate to the specific security type.
- Open-end regulated investment companies or other commingled investment funds are valued at the net asset value of the fund as reported by the fund's administrator.
- Futures and option contracts are valued at the last settlement price established each day by the exchange on which they are traded.
- Credit default and interest rate swaps are valued at the last settlement price established each day by the exchange on which they are traded, are based on market values received from third parties, or are determined by valuation models.
- Foreign currency forward contracts are valued at the difference between the forward contract amount and the month-end forward exchange rate.
- Repurchase agreements and time deposits are valued at cost, provided such amount approximates fair value.

Investments for which the fair value cannot be determined by one of the above listed processes are valued at fair value as determined in accordance with the IMB's established procedures.

# Total Return Fixed Income Pool

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## Notes to Financial Statements

(Amounts in thousands, except share data)

### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Foreign Currency** - Amounts denominated in or expected to settle in foreign currencies are translated into U.S. dollars at exchange rates reported by the Bank of New York Mellon on the following basis:

- Market value of investment securities, other assets and liabilities - at the closing rate of exchange at the valuation date.
- Purchases and sales of investment securities, income and expenses - at the rate of exchange prevailing on the respective dates of such transactions.

**Option Contracts** - The IMB may purchase or write bond, currency, or index option contracts that have recognized liquidity and are actively traded on major exchanges or are executed with major dealers. These option contracts give the purchaser (seller) of the contract the right to buy (call) or sell (put) the security, or settle cash for an index option, underlying the contract at an agreed upon price (strike price) during, or at the conclusion of, a specified period of time.

Premiums paid upon the purchase of an option contract are recorded as an asset and subsequently adjusted to market value. Upon exercising a purchased option, a gain or loss is recorded equal to the difference between the market value of the underlying instrument and the strike price of the option, minus premiums paid. If the option expires unexercised, a loss is recognized in the amount of the premiums paid for the option.

Premiums received when option contracts are written are recorded as a liability and subsequently adjusted to market value. If a written option contract expires unexercised, a gain is recorded equal to the amount of the premiums received. The difference between the premiums received and the amount paid to effect a closing transaction is also recorded as a gain or loss. When a written option is exercised, a gain or loss is recorded equal to the difference between the market value of the underlying instrument and the strike price of the option, minus premiums received.

Written option contracts are used to enhance investment returns and reduce portfolio convexity when implied volatility is high. Purchased option contracts are used to increase portfolio convexity when implied volatility is low, to implement certain yield curve strategies, or to hedge sector exposure.

When writing put options, there is risk that a loss may be incurred if the market price of the underlying instrument decreases and the option is exercised. This loss is determined by market conditions and cannot be specifically limited. The risk associated with writing call options is the loss of potential profit if the market price of the security increases and the option is exercised. Purchased put or call options bear the risk of loss of the premium paid if market conditions are not favorable to exercise the option. There may also be risk that the value of the option contract does not correlate perfectly with movements of the underlying instrument due to certain market distortions.

The IMB limits its exposure to credit risk by only buying or selling options traded on major exchanges, or executed with major dealers. There is a risk of the inability to enter into a closing transaction if a liquid secondary market does not exist. The IMB maintains sufficient levels of cash or cash equivalents to meet cash flow obligations.

**Repurchase Agreements** - In connection with transactions in repurchase agreements, it is the IMB's policy that its designated custodian or mutual third party take possession of the underlying collateral securities, the fair value of which exceeds the principal amount of the repurchase transaction at all times. If the seller defaults, and the fair value of the collateral declines, realization of the collateral by the IMB may be delayed or limited.

**Securities Lending** - The IMB, through its lending agent, the Bank of New York Mellon, loans securities of the Pool to various brokers on a temporary basis. Each transaction for international and domestic securities is secured by collateral based on the market value of the securities loaned. The required collateral percentage varies based on the type of collateral received and the type of security loaned. For U.S. securities, the required percentage of cash collateral and non-cash collateral consisting of debt obligations and securities issued by the United States Government or its agencies or instrumentalities is at least 102 percent of the market value of the securities loaned plus accrued income. For international securities, the required collateral is at least 105 percent of the market value of the securities on loan unless the foreign securities loaned are denominated and payable in U.S. Dollars, then the collateral shall be at least 102 percent of the market value of the securities loaned. Cash collateral

# Total Return Fixed Income Pool

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## Notes to Financial Statements

*(Amounts in thousands, except share data)*

### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

received is invested in repurchase agreements, money market mutual funds, and time deposits. Such investments, except for repurchase transactions, are made at the risk of the Pool and, as such, the Pool is liable for investment losses. The lending agent contractually indemnifies the IMB for any repurchase agreement investment losses. Investments made with cash are reported at fair value on the Statement of Net Position. Securities loaned remain on the Statement of Net Position. The IMB has the right under the lending agreement to recover the securities from the borrower on demand. The IMB receives compensation in the form of loan premium fees and income from the investment of the cash collateral. Expenses related to the lending of securities are rebates paid by the lending agent to brokers and the lending agent's fees for its services. Securities lending income and expenses are recorded in the Statement of Changes in Net Position. The IMB also continues to receive interest or dividends on the securities loaned. Gains or losses in the fair value of the securities loaned that may occur during the term of the loans are reflected in the Statement of Changes in Net Position as a net increase (decrease) in fair value of investments.

**Futures Contracts** - A futures contract is an agreement between a buyer or a seller and the clearinghouse of a futures exchange in which the parties agree to buy or sell a commodity, financial instrument or index at a specified future date and price. Upon entering into a financial futures contract, the IMB is required to pledge to the broker an amount of cash, U.S. government securities, or other assets, equal to a certain percentage of the contract amount (initial margin deposit). Cash (variation margin) is received from or paid to the broker on a daily basis for the fluctuations of the underlying securities or index. The IMB records futures at fair market value.

Interest rate futures may be used to enhance portfolio yields, manage portfolio duration, or as an alternative investment of cash.

The market risk associated with holding interest rate futures results from changes in the market value of the contractual positions due to changes in the value of the underlying instruments or indices. Investment risk associated with these futures contracts arises because the value of the futures contracts may not correlate perfectly with changes in the values of the underlying instruments or indices due to market distortions.

Other risks associated with futures contracts are liquidity risk and credit risk. Liquidity risk arises when there is insufficient trading in a particular futures contract. Credit risk arises from the potential inability of counterparties to meet the terms of the contracts. The IMB's managers generally only utilize futures contracts that are traded on major exchanges or are executed with major dealers. The major exchanges assume the risk of a counterparty default and generally require an initial margin deposit of cash or securities.

**Foreign Currency Forward Contracts** - A foreign currency forward contract is an agreement between two parties to exchange different currencies at a specified exchange rate at an agreed upon future date. The IMB enters into such contracts to take advantage of the relative changes in currency exchange rates. Risks associated with such contracts include movement in the value of the foreign currency relative to the U.S. dollar and the ability of the counterparty to perform. These contracts are valued at the prevailing market exchange rates at month end.

**Credit Default Swaps** - Credit default swaps are agreements between counterparties to transfer the credit risk of referenced debt securities. The buyer of the credit default swap gains protection against a negative credit event such as a default or credit rating downgrade and the seller assumes the credit risk and is obligated to pay upon the occurrence of such an event. Credit default swap agreements are marked-to-market daily. Upfront payments received or made by the Pool on credit default swap agreements are capitalized. Periodic payments received or paid are recorded as interest income. Payments received or made as a result of a credit event or termination of the contract are recognized, net of a proportional amount of the upfront payment, in net increase (decrease) in fair value of investments.

Credit default swaps are instruments which allow for the full or partial transfer of third party credit risk, with respect to a particular entity or entities, from one counterparty to the other. A seller of credit default swaps is selling credit protection or assuming credit risk with respect to the underlying entity or entities. If a credit event occurs, as defined under the terms of the swap agreement, the seller of protection will either (i) pay to the buyer of protection an amount equal to the notional amount of the swap and take delivery of the referenced obligation or underlying securities comprising the referenced index or (ii) pay a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index. The Notional Principal reflects the



# Total Return Fixed Income Pool

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## Notes to Financial Statements

*(Amounts in thousands, except share data)*

### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

maximum potential amount the seller of protection could be required to pay if a credit event occurs. The seller of protection receives periodic premium payments from the counterparty and may also receive or pay an upfront premium adjustment to the stated periodic premium.

**Interest Rate Swaps** - Interest rate swaps represent agreements between counterparties to exchange cash flows based on the difference between a fixed and floating interest rate, applied to a notional principal amount for a specified period. A basis swap is a type of interest rate swap that exchanges one floating rate for another. Upfront payments received or made by the Pool on interest rate swap agreements are capitalized. Interest is paid or received periodically.

**Asset-Backed Securities** - The Pool invests in various asset-backed securities, mortgage-backed securities, and structured corporate debt. The securities are reported at fair value, which is determined by a third party pricing service based on asset portfolio pricing models and other sources. The Pool invests in these securities to enhance yields on investments. Changes in market interest rates affect the cash flows of these securities and may result in changes in fair value. The overall return or yield on these securities depends on the changes in the interest and principal payment pattern and market value of the underlying assets.

**Investment Transactions** - Investment transactions are accounted for on a trade date basis. Interest income is recognized on the accrual basis. Dividend income is recognized on the ex-dividend date.

**Use of Estimates** - The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Unit Valuation and Participant Transactions** - The unit price of the Pool is calculated on the last business day of the month by dividing the net position of the Pool by the number of outstanding units. Participant transactions are executed at the unit price at the time of the purchase or redemption.

**Distributions to Participants** – The Pool does not routinely distribute dividends of net investment income.

**Expenses** - The IMB's Trustees adopt an annual budget and fee schedule for services to be provided to all of the investment pools under its management. Each investment pool is charged for its direct investment-related cost and for its allocated share of other expenses. These other expenses are allocated to the individual pools based on asset size. The IMB pays all expenses on behalf of the Pool. In addition to these direct and allocated expenses, the Pool bears certain expenses indirectly, such as fees of other investment funds in which the Pool invests that are reflected in the reported net asset value of such funds.

**Income Taxes** - The IMB is a public corporation organized under laws of the State of West Virginia and exempt from U.S. federal and state taxation. Accordingly, no provision for income taxes is required as of October 31, 2018.

In certain foreign countries, the Pool's interest income and capital gains may be taxable. Taxes on interest income are generally withheld from the payments and as a result there is no provision recorded for these taxes. In certain cases, there may be a full or partial reclaim available for the withheld taxes. Capital gains taxes, if any, on sales of securities may be assessed and paid concurrent with the sale or upon the filing of a return with the taxing authority. In countries where the IMB is liable for capital gains taxes, the IMB will estimate and accrue a capital gains tax liability for unrealized gains on securities held in such countries. The outstanding reclaims and accrued capital gains taxes are reported on the Statement of Net Position. Interest income is reported net of non-reclaimable taxes withheld on the Statement of Changes in Net Position. The net increase (decrease) in fair value of investments is reported net of capital gains taxes on the Statement of Changes in Net Position.

## Total Return Fixed Income Pool

### Notes to Financial Statements (Amounts in thousands, except share data)

#### NOTE 3. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments held in the Pool include foreign exchange contracts, futures, options, credit default swaps, interest rate swaps, and basis swaps. None of these derivative financial instruments are designated as hedging instruments under GASB Statement No. 53; they are used to implement portfolio strategy, capture valuation opportunities, and to exploit market inefficiencies. The primary risks managed by using these derivative financial instruments include interest rate, foreign exchange rate, and market price risks. See Note 2 for additional information on the Pool's purpose for entering into derivatives and for discussion on the risks associated with investing in these derivatives.

The Pool, through its investment managers, is a party to International Swap and Derivative Association, Inc. (ISDA) Master Agreements (MA) that may allow the netting of counterparty's obligations against those of the Pool in the event of a default by the counterparty. The Pool is required to disclose the positions held at period-end that were entered into pursuant to agreements that allow for such netting.

The table below presents the fair value, the net increase (decrease) in fair value, and the notional amounts of derivative financial instruments outstanding as of October 31, 2018:

Derivative Type	Fair Value	Net Increase (Decrease) in Fair Value of Investments	Notional Value (in USD)
Forwards:			
Foreign currency forward contracts	\$ 737	\$ 1,726	\$ 88,999
Futures contracts:			
Fixed income futures long	(10,398)	(14,763)	2,275,595
Fixed income futures short	8,013	9,197	(847,246)
Options contracts:			
Fixed income options purchased	2,415	(5,303)	238,429
Fixed income options written	(2,106)	6,915	59,373
Credit default swaptions purchased	189	(486)	65,963
Credit default swaptions written	-	18	-
Interest rate swaptions purchased	7,856	1,800	59,318
Swaps:			
Basis swaps	(76)	77	69,776
Credit default swaps	(4,096)	(29)	122,917
Interest rate swaps	(6,743)	(3,566)	495,015
Total return swaps	117	117	139,120
Total	<u>\$ (4,092)</u>	<u>\$ (4,297)</u>	<u>\$ 2,767,259</u>

#### Credit Risk

For financial reporting purposes, the Pool does not offset derivative assets and derivative liabilities that are subject to netting arrangements in the Statement of Net Position. The following table presents the Pool's derivative assets net of amounts available for offset under a netting provision and net of related collateral received by the Pool as of October 31, 2018:

Derivative Type	Derivative Assets Subject to a MA	Derivatives Available for Offset	Non-Cash Collateral Received	Cash Collateral Received	Net Exposure
Foreign currency forwards	\$ 178	\$ -	\$ (51)	\$ (110)	\$ 17
Swaptions	8,045	(300)	(7,664)	-	81
Swaps	1,072	(51)	(911)	-	110
Total	<u>\$ 9,295</u>	<u>\$ (351)</u>	<u>\$ (8,626)</u>	<u>\$ (110)</u>	<u>\$ 208</u>

## Total Return Fixed Income Pool

### Notes to Financial Statements (Amounts in thousands, except share data)

#### NOTE 3. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

At October 31, 2018, the Pool had pledged cash, net of amounts received from counterparties, of \$32,041 to cover margin requirements on open derivative contracts and counterparties had deposited, in segregated accounts, securities with a fair value of \$9,134 in connection with open derivative contracts.

Foreign currency forward contracts, certain swaps, and swaptions are exposed to counterparty credit risk. The IMB reviews available ratings from Standard & Poor's, Moody's, and Fitch and reports the rating indicative of the greatest degree of risk.

The following table provides the credit ratings for the Pool's derivative investments that are subject to counterparty credit risk as of October 31, 2018:

Derivative Type	Counterparty Rating	Fair Value
Foreign currency forward contracts	BBB	\$ 899
Credit default swaptions purchased	A	48
Credit default swaptions purchased	BBB	141
Interest rate swaptions purchased	A	7,856
Credit default swaps	A	27

#### Interest Rate Risk

The following table provides the time to maturity for investment derivatives that are subject to interest rate risk as of October 31, 2018:

Derivative Type	Investment Maturities (in years)				
	Fair Value	Under-1	1-5	6-10	10+
Futures contracts:					
Fixed income futures long	\$ (10,398)	\$ (5,729)	\$ (4,669)	\$ -	\$ -
Fixed income futures short	8,013	7,550	463	-	-
Options contracts:					
Fixed income options purchased	2,415	2,415	-	-	-
Fixed income options written	(2,106)	(2,106)	-	-	-
Interest rate swaptions purchased	7,856	-	7,856	-	-
Swaps:					
Basis swaps	(76)	-	-	(76)	-
Interest rate swaps	(6,743)	-	(6,220)	-	(523)
Total	<u>\$ (1,039)</u>	<u>\$ 2,130</u>	<u>\$ (2,570)</u>	<u>\$ (76)</u>	<u>\$ (523)</u>

Interest rate and basis swaps are highly sensitive to changes in interest rates. The following tables provide detailed information on derivative financial instruments that are highly sensitive to interest rate changes.

At October 31, 2018, the open positions in interest rate swaps denominated in U.S. dollars were as follows:

Maturity Date	Reference Rate	Notional	Fair Value
8/31/2022	Receive Fixed 2.85%, Pay Floating 3-Month Libor	\$ 148,062	\$ (1,486)
2/3/2033	Receive Fixed 3.00%, Pay Floating 3-Month Libor	40,100	(1,260)
2/6/2033	Receive Fixed 3.15%, Pay Floating 3-Month Libor	19,990	(400)
		<u>\$ 208,152</u>	<u>\$ (3,146)</u>

## Total Return Fixed Income Pool

### Notes to Financial Statements (Amounts in thousands, except share data)

#### NOTE 3. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

At October 31, 2018, the open positions in interest rate swaps denominated in foreign currencies were as follows:

Maturity Date	Reference Rate	Notional (USD)	Fair Value
1/2/2020	Receive Fixed 8.41%, Pay Floating Brazil CDI	\$ 41,941	\$ 866
4/5/2021	Receive Fixed 7.35%, Pay Floating MXN TIE	87,735	(2,901)
4/6/2022	Receive Fixed 7.33%, Pay Floating MXN TIE	60,145	(2,747)
4/19/2047	Receive Floating 6-Month JPY Libor, Pay Fixed 0.79%	31,915	1,137
10/30/2021	Receive Floating 3-Month GBP Libor, Pay Fixed 1.39%	35,879	(1)
10/26/2021	Receive Floating 6-Month GBP Libor, Pay Fixed 1.27%	29,248	49
		\$ 286,863	\$ (3,597)

At October 31, 2018, the open position in a basis swap was as follows:

Maturity Date	Reference Rate	Notional	Fair Value
12/19/2023	Receive Floating Fed Funds plus 0.31%, Pay Floating 3-Month Libor	\$ 69,776	\$ (76)

#### Foreign Currency Risk

The Pool has foreign currency forward contracts, futures contracts, and swap contracts that are denominated in foreign currencies and exposed to foreign currency risks. The amounts at fair value (in U.S. dollars) of derivative investments in foreign currencies as of October 31, 2018, are as follows:

Currency	Foreign Currency Forward Contracts	Futures Contracts	Swap Contracts	Total
Australian Dollar	\$ 1	\$ -	\$ -	\$ 1
Brazil Real	(68)	-	866	798
British Pound	39	-	49	88
Euro Currency Unit	97	(541)	-	(444)
Japanese Yen	389	-	1,137	1,526
Mexican Peso	228	-	(5,648)	(5,420)
Russian Ruble	51	-	-	51
Total foreign denominated derivatives	737	(541)	(3,596)	(3,400)
U.S. Dollar	-	(1,844)	(7,202)	(9,046)
Total	\$ 737	\$ (2,385)	\$ (10,798)	\$ (12,446)

#### NOTE 4. FAIR VALUE MEASUREMENTS

GASB Statement No. 72 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value of an investment is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., the exit price).

GASB Statement No. 72 establishes a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical financial instruments (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GASB Statement No. 72 are:

## Total Return Fixed Income Pool

### Notes to Financial Statements (Amounts in thousands, except share data)

#### NOTE 4. FAIR VALUE MEASUREMENTS (continued)

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities at the reporting date.

Level 2 Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not considered active; observable inputs other than observable quoted prices for the asset or liability; or inputs derived principally from or corroborated by observable market data.

Level 3 Unobservable pricing inputs for assets and liabilities.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

U.S. GAAP does not require the Pool to categorize within the fair value hierarchy table investments for which fair value is measured using the net asset value per share as the practical expedient. The table that follows sets forth information about the level within the fair value hierarchy at which the Pool's assets and liabilities are measured at October 31, 2018. All of the Pool's investments in other funds were valued using the net asset value per share, as such they have not been categorized in the fair value hierarchy.

Assets	Level 1	Level 2	Level 3	Total
Corporate ABS residual	\$ -	\$ 4,954	\$ -	\$ 4,954
Corporate asset backed issues	-	99,340	-	99,340
Corporate CMO	-	64,509	-	64,509
Corporate preferred securities	10,633	-	-	10,633
Foreign asset backed issues	-	20,075	-	20,075
Foreign corporate bonds	-	301,575	-	301,575
Foreign currency forward contracts	-	899	-	899
Foreign equity investments	39	-	-	39
Foreign government bonds	-	259,987	-	259,987
Futures contracts	9,202	-	-	9,202
Money market mutual fund	28,089	-	-	28,089
Municipal bonds	-	42,771	-	42,771
Options contracts purchased	2,415	8,045	-	10,460
Securities lending collateral	-	156,959	-	156,959
Short term investments	-	36,458	-	36,458
Swaps	-	2,259	-	2,259
U.S. corporate bonds	-	442,751	-	442,751
U.S. Government agency bonds	-	3,566	-	3,566
U.S. Government agency CMO	-	60,698	-	60,698
U.S. Government agency CMO interest-only	-	3,948	-	3,948
U.S. Government agency MBS	-	348,610	-	348,610
U.S. Government agency TBAs	-	416	-	416
U.S. Treasury bonds	-	334,127	-	334,127
U.S. Treasury inflation protected securities	-	16,628	-	16,628
Total	<u>\$ 50,378</u>	<u>\$ 2,208,575</u>	<u>\$ -</u>	<u>\$ 2,258,953</u>
Commingled debt funds				248,656
Total				<u>\$ 2,507,609</u>

## Total Return Fixed Income Pool

### Notes to Financial Statements

(Amounts in thousands, except share data)

#### NOTE 4. FAIR VALUE MEASUREMENTS (continued)

Liabilities	Level 1	Level 2	Level 3	Total
Foreign currency forward contracts	\$ -	\$ (162)	\$ -	\$ (162)
Futures contracts	(11,587)	-	-	(11,587)
Options contracts written	(2,106)	-	-	(2,106)
Swaps	-	(13,057)	-	(13,057)
Total	<u>\$ (13,693)</u>	<u>\$ (13,219)</u>	<u>\$ -</u>	<u>\$ (26,912)</u>

The Pool's investments in commingled debt funds were measured at the NAV as of October 31, 2018. These commingled debt funds invest in certain niche sectors, particularly ones that are not a significant percentage to the Pool, to provide economies of scale and efficiencies in establishing and managing a diversified portfolio that would be otherwise difficult to achieve. These funds offer daily liquidity.

#### NOTE 5. SECURITIES LENDING

The following table presents the amounts of various accounts related to securities lending at October 31, 2018:

	Fair Value
Securities on loan	\$ 212,811
Collateral received:	
Cash	\$ 156,959
Non-cash	61,505
Total collateral received	<u>\$ 218,464</u>

The Bank of New York Mellon (BNYM), as agent for the IMB, loans the IMB's securities to various counterparties. These transactions are executed under Master Securities Lending Agreements (MSLA) which permit BNYM under certain circumstances, such as defaults, to offset amounts payable to the same counterparty against amounts to be received and thus create one single net payment due to or from the counterparty. The amounts listed in the above table represent all securities loaned which are subject to a MSLA on a net payment basis. The IMB has elected not to offset the fair value of the securities on loan against the liability for the return of the collateral on the Statement of Net Position.

## Total Return Fixed Income Pool

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### Notes to Financial Statements

(Amounts in thousands, except share data)

#### NOTE 6. SCHEDULE OF PARTICIPATION

The following schedule provides the value of participants' accounts in the Pool at October 31, 2018:

<u>Participant</u>	<u>Account Value</u>
Teachers' Retirement System	\$ 731,770
Public Employees' Retirement System	644,864
Workers' Compensation Old Fund	318,455
Revenue Shortfall Reserve Fund - Part B	168,339
West Virginia Retiree Health Benefit Trust Fund	90,892
State Police Death, Disability and Retirement Fund	66,156
Revenue Shortfall Reserve Fund	64,380
Coal Workers' Pneumoconiosis Fund	56,346
Public Employees Insurance Agency	53,670
West Virginia Department of Environmental Protection Agency	53,315
Board of Risk and Insurance Management	35,776
Deputy Sheriff's Retirement System	21,847
Judges' Retirement System	19,869
State Police Retirement System	19,015
West Virginia Prepaid Tuition Trust Fund	15,248
Workers' Compensation Self-Insured Employer Security Risk Pool	12,185
Workers' Compensation Self-Insured Employer Guaranty Risk Pool	7,844
Emergency Medical Services Retirement System	7,805
Wildlife Endowment Fund	6,399
Workers' Compensation Uninsured Employers' Fund	2,584
West Virginia Department of Environmental Protection Trust	899
Municipal Police Officers' and Firefighters' Retirement System	888
Berkeley County Development Authority	772
Municipal Policemen's or Firemen's Pension and Relief Funds	368
Total	<u>\$ 2,399,686</u>





**Financial Statements - Unaudited**

**October 31, 2018**



# Core Fixed Income Pool

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## Financial Statements - Unaudited October 31, 2018

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# Core Fixed Income Pool

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## Statement of Net Position - Unaudited October 31, 2018

(Amounts in thousands, except unit data)

### Assets

Investments, at fair value:		
Fixed income investments	\$	1,045,499
Money market mutual fund		11,020
Securities lending collateral		103,949
Receivables:		
Interest, dividends, and other investment income		4,957
Investments sold		<u>1,291</u>
<b>Total assets</b>		<u>1,166,716</u>

### Liabilities

Accrued expenses		444
Payable for investments purchased		875
Payable upon return of securities loaned		<u>103,949</u>
<b>Total liabilities</b>		<u>105,268</u>
<b>Net position</b>	\$	<u><u>1,061,448</u></u>

### Unit data

Units outstanding		99,084,759
Net position, unit price	\$	<u><u>10.71</u></u>

See accompanying notes to financial statements.

## Core Fixed Income Pool

**Statement of Change in Net Position - Unaudited**  
**Period Ended October 31, 2018\***  
*(Amounts in thousands)*

	<b>Month</b>	<b>Year To Date</b>
<b>Investment income</b>		
Net decrease in fair value of investments	\$ (9,139)	\$ (16,518)
Interest, dividends, and other investment income	2,776	10,882
Securities lending income	239	810
<b>Total investment income</b>	(6,124)	(4,826)
<b>Expenses</b>		
Investment advisor fees	(101)	(377)
Custodian bank fees	(5)	(22)
Management and other allocated fees	(28)	(113)
Securities lending expenses	(221)	(732)
<b>Total expenses</b>	(355)	(1,244)
<b>Net investment loss</b>	(6,479)	(6,070)
<b>Unit transactions</b>		
Proceeds from sale of units	8,841	42,947
Amount paid for repurchase of units	(8,867)	(17,439)
<b>Net increase (decrease) from unit transactions</b>	(26)	25,508
<b>Increase (decrease) in net position</b>	(6,505)	19,438
<b>Net position, beginning of period</b>	1,067,953	1,042,010
<b>Net position, end of period</b>	\$ 1,061,448	\$ 1,061,448

*\*The WVIMB operates on a fiscal year beginning on July 1. The "year to date" information is for the period July 1 through the month listed. See accompanying notes to financial statements.*

# Core Fixed Income Pool

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## Notes to Financial Statements (Amounts in thousands, except share data)

### NOTE 1. DESCRIPTION OF THE ENTITY

The West Virginia Investment Management Board (IMB) was organized on April 25, 1997, as a public body corporate created by *West Virginia Code §12-6-1* to provide prudent fiscal administration and investment management services to designated state pension funds, the state's Workers' Compensation and Coal Workers' Pneumoconiosis funds, and certain other state government funds.

A Board of Trustees, consisting of thirteen members, governs the IMB. The Governor, the State Auditor, and the State Treasurer are ex officio members of the Board of Trustees. The Governor appoints all other Trustees for a term of six years.

The IMB operates on a fiscal year beginning July 1 and ending June 30.

The accompanying financial statements reflect only the investments and investment related operations of the IMB's Core Fixed Income Pool (Pool). They do not reflect activity of the other investment pools under the control of the IMB or the Administrative Fund of the IMB, or any other assets or liabilities, or restrictions thereon, or the various investment pool participants. Accordingly, these financial statements are not intended to and do not present the comprehensive financial position and operations of the IMB or any of the investment pool participants.

The IMB accounts for the Pool under U.S. Generally Accepted Accounting Principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB), using the economic resources measurement focus and the accrual basis of accounting.

The main objective of the Pool is to generate investment income, provide stability and diversification, but not at the expense of total return. JP Morgan Investment Advisors, Inc. manages this Pool. This Pool's investment objective, net of external investment management fees, is to meet or exceed the Bloomberg Barclays U.S. Aggregate Bond Index.

### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

**Investment Valuation** - The IMB reports its investments at fair value in accordance with GASB Statement No. 72. Refer to Note 3 for further discussion and presentation of the reporting requirements under GASB Statement No. 72.

Fair value of the Pool's portfolio securities is determined on the last business day of each month as follows:

- Fixed income securities are valued according to prices furnished by independent pricing services to the Pool's custodian. These services determine the security prices by a number of methods including, but not limited to, dealer quotes, live market trading levels when available, live feeds of trade execution data, spreads over U.S. Treasury securities, and other models and formulae appropriate to the specific security type.
- Open-end regulated investment companies or other commingled investment funds are valued at the net asset value of the fund as reported by the fund's administrator.
- Repurchase agreements and time deposits are valued at cost, provided such amount approximates fair value.

Investments for which the fair value cannot be determined by one of the above listed processes are valued at fair value as determined in accordance with the IMB's established procedures.

**Repurchase Agreements** - In connection with transactions in repurchase agreements, it is the IMB's policy that its designated custodian or mutual third party take possession of the underlying collateral securities, the fair value of which exceeds the principal amount of the repurchase transaction at all times. If the seller defaults, and the fair value of the collateral declines, realization of the collateral by the IMB may be delayed or limited.

# Core Fixed Income Pool

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## Notes to Financial Statements (Amounts in thousands, except share data)

### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Securities Lending** - The IMB, through its lending agent, the Bank of New York Mellon (BNYM), loans securities of the Pool to various brokers on a temporary basis. Each transaction for international and domestic securities is secured by collateral based on the market value of the securities loaned. The required collateral percentage varies based on the type of collateral received and the type of security loaned. For U.S. securities, the required percentage of cash collateral and non-cash collateral consisting of debt obligations and securities issued by the United States Government or its agencies or instrumentalities is at least 102 percent of the market value of the securities loaned plus accrued income. For international securities, the required collateral is at least 105 percent of the market value of the securities on loan unless the foreign securities loaned are denominated and payable in U.S. Dollars, then the collateral shall be at least 102 percent of the market value of the securities loaned. Cash collateral received is invested in repurchase agreements, money market mutual funds, and time deposits. Such investments, except for repurchase transactions, are made at the risk of the Pool and, as such, the Pool is liable for investment losses. The lending agent contractually indemnifies the IMB for any repurchase agreement investment losses. Investments made with cash are reported at fair value on the Statement of Net Position. Securities loaned remain on the Statement of Net Position. The IMB has the right under the lending agreement to recover the securities from the borrower on demand. The IMB receives compensation in the form of loan premium fees and income from the investment of the cash collateral. Expenses related to the lending of securities are rebates paid by the lending agent to brokers and the lending agent's fees for its services. Securities lending income and expenses are recorded in the Statement of Changes in Net Position. The IMB also continues to receive interest or dividends on the securities loaned. Gains or losses in the fair value of the securities loaned that may occur during the term of the loans are reflected in the Statement of Changes in Net Position as a net increase (decrease) in fair value of investments.

**Asset-Backed Securities** - The Pool invests in various asset-backed securities, mortgage-backed securities, and structured corporate debt. The securities are reported at fair value, which is determined by a third-party pricing service based on asset portfolio pricing models and other sources. The Pool invests in these securities to enhance yields on investments. Changes in market interest rates affect the cash flows of these securities and may result in changes in fair value. The overall return or yield on these securities depends on the changes in the interest and principal payment pattern and market value of the underlying assets.

**Investment Transactions** - Investment transactions are accounted for on a trade date basis. Interest income is recognized on the accrual basis. Dividend income is recognized on the ex-dividend date.

**Use of Estimates** - The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Unit Valuation and Participant Transactions** - The unit price of the Pool is calculated on the last business day of the month by dividing the net position of the Pool by the number of outstanding units. Participant transactions are executed at the unit price at the time of the purchase or redemption.

**Distributions to Participants** - The Pool does not routinely distribute dividends of net investment income.

**Expenses** - The IMB's Trustees adopt an annual budget and fee schedule for services to be provided to all of the investment pools under its management. Each investment pool is charged for its direct investment-related cost and for its allocated share of other expenses. These other expenses are allocated to the individual pools based on asset size. The IMB pays all expenses on behalf of the Pool.

**Income Taxes** - The IMB is a public corporation organized under laws of the State of West Virginia and exempt from U.S. federal and state taxation. Accordingly, no provision for income taxes is required as of October 31, 2018.

# Core Fixed Income Pool

## Notes to Financial Statements (Amounts in thousands, except share data)

### NOTE 3. FAIR VALUE MEASUREMENTS

GASB Statement No. 72 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value of an investment is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., the exit price).

GASB Statement No. 72 establishes a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical financial instruments (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GASB Statement No. 72 are:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities at the reporting date.

Level 2 Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not considered active; observable inputs other than observable quoted prices for the asset or liability; or inputs derived principally from or corroborated by observable market data.

Level 3 Unobservable pricing inputs for assets and liabilities.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

The table below summarizes the valuation of the investment securities in accordance with GASB Statement No. 72 fair value hierarchy levels as of October 31, 2018:

Assets	Level 1	Level 2	Level 3	Total
Corporate asset backed issues	\$ -	\$ 138,531	\$ -	\$ 138,531
Corporate CMO	-	36,327	-	36,327
Corporate CMO interest-only	-	343	-	343
Corporate CMO principal-only	-	105	-	105
Foreign asset backed issues	-	3,079	-	3,079
Foreign corporate bonds	-	71,211	-	71,211
Foreign government bonds	-	5,756	-	5,756
Money market mutual fund	11,020	-	-	11,020
Municipal bonds	-	8,616	-	8,616
Securities lending collateral	-	103,949	-	103,949
U.S. Corporate bonds	-	198,975	-	198,975
U.S. Government agency bonds	-	18,793	-	18,793
U.S. Government agency CMO	-	114,985	-	114,985
U.S. Government agency CMO interest-only	-	2,009	-	2,009
U.S. Government agency CMO principal-only	-	5,227	-	5,227
U.S. Government agency MBS	-	175,186	-	175,186
U.S. Treasury bonds	-	265,923	-	265,923
U.S. Treasury inflation protected securities	-	433	-	433
Total	<u>\$ 11,020</u>	<u>\$ 1,149,448</u>	<u>\$ -</u>	<u>\$ 1,160,468</u>



## Core Fixed Income Pool

### Notes to Financial Statements (Amounts in thousands, except share data)

#### NOTE 4. SECURITIES LENDING

The following table presents the amounts of various accounts related to securities lending at October 31, 2018:

	Fair Value
Securities on loan	\$ 103,789
Collateral received:	
Cash	\$ 103,949
Non-cash	2,217
Total collateral received	\$ 106,166

The BNYM, as agent for the IMB, loans the IMB's securities to various counterparties. These transactions are executed under Master Securities Lending Agreements (MSLA) which permit BNYM under certain circumstances, such as defaults, to offset amounts payable to the same counterparty against amounts to be received and thus create one single net payment due to or from the counterparty. The amounts listed in the above table represent all securities loaned which are subject to a MSLA on a net payment basis. The IMB has elected not to offset the fair value of the securities on loan against the liability for the return of the collateral on the Statement of Net Position.

#### NOTE 5. SCHEDULE OF PARTICIPATION

The following schedule provides the value of participants' accounts in the Pool at October 31, 2018:

Participant	Account Value
Teachers' Retirement System	\$ 324,902
Public Employees' Retirement System	288,101
Workers' Compensation Old Fund	136,276
Revenue Shortfall Reserve Fund - Part B	72,327
West Virginia Retiree Health Benefit Trust Fund	40,047
State Police Death, Disability and Retirement Fund	28,330
Revenue Shortfall Reserve Fund	27,541
Coal Workers' Pneumoconiosis Fund	24,157
Public Employees Insurance Agency	22,959
West Virginia Department of Environmental Protection Agency	22,770
Board of Risk and Insurance Management	15,362
West Virginia Prepaid Tuition Trust Fund	15,182
Deputy Sheriff's Retirement System	9,461
Judges' Retirement System	8,675
State Police Retirement System	8,219
Workers' Compensation Self-Insured Employer Security Risk Pool	5,261
Emergency Medical Services Retirement System	3,384
Workers' Compensation Self-Insured Employer Guaranty Risk Pool	3,381
Wildlife Endowment Fund	2,737
Workers' Compensation Uninsured Employers' Fund	1,118
West Virginia Department of Environmental Protection Trust	384
Municipal Police Officers' and Firefighters' Retirement System	379
Berkeley County Development Authority	337
Municipal Policemen's or Firemen's Pension and Relief Funds	158
Total	\$ 1,061,448



**Financial Statements - Unaudited**

**October 31, 2018**



# TIPS Pool

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## **Financial Statements - Unaudited October 31, 2018**

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# TIPS Pool

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**Statement of Net Position - Unaudited**  
**October 31, 2018**  
*(Amounts in thousands, except unit data)*

**Assets**

Investments, at fair value:	
Commingled bond fund	\$ 382,142
Money market mutual fund	<u>1,700</u>
<b>Total assets</b>	<b>383,842</b>

**Liabilities**

Accrued expenses	<u>43</u>
<b>Net position</b>	<b><u>\$ 383,799</u></b>

**Unit data**

Units outstanding	34,391,684
Net position, unit price	<u><u>\$ 11.16</u></u>

*See accompanying notes to financial statements.*

# TIPS Pool

**Statement of Changes in Net Position - Unaudited**  
**Period Ended October 31, 2018\***  
*(Amounts in thousands)*

	<b>Month</b>	<b>Year To Date</b>
<b>Investment income</b>		
Net decrease in fair value of investments	\$ (5,552)	\$ (8,748)
Interest, dividends, and other investment income	-	1
<b>Total investment income</b>	(5,552)	(8,747)
<b>Expenses</b>		
Investment advisor fees	(5)	(22)
Management and other allocated fees	(11)	(42)
<b>Total expenses</b>	(16)	(64)
<b>Net investment loss</b>	(5,568)	(8,811)
<b>Unit transactions</b>		
Proceeds from sale of units	10	12,354
Amount paid for repurchase of units	-	(10,978)
<b>Net increase from unit transactions</b>	10	1,376
<b>Decrease in net position</b>	(5,558)	(7,435)
<b>Net position, beginning of period</b>	389,357	391,234
<b>Net position, end of period</b>	\$ 383,799	\$ 383,799

*\*The WVIMB operates on a fiscal year beginning on July 1. The "year to date" information is for the period July 1 through the month listed. See accompanying notes to financial statements.*

# TIPS Pool

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## Notes to Financial Statements (Amounts in thousands, except share data)

### NOTE 1. DESCRIPTION OF THE ENTITY

The West Virginia Investment Management Board (IMB) was organized on April 25, 1997, as a public body corporate created by *West Virginia Code §12-6-1* to provide prudent fiscal administration and investment management services to designated state pension funds, the state's Workers' Compensation and Coal Workers' Pneumoconiosis funds, and certain other state government funds.

A Board of Trustees, consisting of thirteen members, governs the IMB. The Governor, the State Auditor, and the State Treasurer are ex officio members of the Board of Trustees. The Governor appoints all other Trustees for a term of six years.

The IMB operates on a fiscal year beginning July 1 and ending June 30.

The accompanying financial statements reflect only the investments and investment related operations of the IMB's TIPS Pool (Pool). They do not reflect activity of the other investment pools under the control of the IMB or the Administrative Fund of the IMB, or any other assets or liabilities, or restrictions thereon, or the various investment pool participants. Accordingly, these financial statements are not intended to and do not present the comprehensive financial position and operations of the IMB or any of the investment pool participants.

The IMB accounts for the Pool under U.S. Generally Accepted Accounting Principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB), using the economic resources measurement focus and the accrual basis of accounting.

The Pool's objective is to match the performance of the Bloomberg Barclays U.S. Treasury Inflation Protection Index on an annualized basis over rolling three-year to five-year periods, gross of fees. The Pool invests in the BlackRock U.S. Treasury Inflation Protected Securities Fund B (BlackRock). BlackRock invests primarily in a portfolio of debt securities with the objective of closely approximating the total rate of return for all outstanding U.S. Treasury Inflation Protected Securities with a maturity of one year or greater.

### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

**Investment Valuation** - The IMB reports its investments at fair value in accordance with GASB Statement No. 72. Refer to Note 3 for further discussion and presentation of the reporting requirements under GASB Statement No. 72.

Open-end regulated investment companies or other commingled investment funds are valued at the net asset value of the fund as reported by the fund's administrator. Investments for which the fair value cannot be determined are valued at fair value as determined in accordance with the IMB's established procedures.

**Investment Transactions** - Investment transactions are accounted for on a trade date basis. Interest income is recognized on the accrual basis. Dividend income is recognized on the ex-dividend date.

**Use of Estimates** - The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Unit Valuation and Participant Transactions** - The unit price of the Pool is calculated on the last business day of the month by dividing the net position of the Pool by the number of outstanding units. Participant transactions are executed at the unit price at the time of the purchase or redemption.

**Distributions to Participants** - The Pool does not routinely distribute dividends of net investment income.

**Expenses** - The IMB's Trustees adopt an annual budget and fee schedule for services to be provided to all of the investment pools under its management. Each investment pool is charged for its direct investment-related cost and for its allocated share of other expenses. These other expenses are allocated to the individual pools based on asset size. The IMB pays all expenses on behalf of the Pool.



# TIPS Pool

## Notes to Financial Statements (Amounts in thousands, except share data)

### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Income Taxes** - The IMB is a public corporation organized under laws of the State of West Virginia and exempt from U.S. federal and state taxation. Accordingly, no provision for income taxes is required as of October 31, 2018.

### NOTE 3. FAIR VALUE MEASUREMENTS

GASB Statement No. 72 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value of an investment is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., the exit price).

GASB Statement No. 72 establishes a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical financial instruments (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GASB Statement No. 72 are:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities at the reporting date.

Level 2 Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not considered active; observable inputs other than observable quoted prices for the asset or liability; or inputs derived principally from or corroborated by observable market data.

Level 3 Unobservable pricing inputs for assets and liabilities.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

The table below summarizes the valuation of the investment securities in accordance with GASB Statement No. 72 fair value hierarchy levels as of October 31, 2018:

<u>Assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Commingled bond fund	\$ 382,142	\$ -	\$ -	\$ 382,142
Money market mutual fund	1,700	-	-	1,700
	<u>\$ 383,842</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 383,842</u>

### NOTE 4. SCHEDULE OF PARTICIPATION

The following schedule provides the value of participants' accounts in the Pool at October 31, 2018:

<u>Participant</u>	<u>Account Value</u>
Workers' Compensation Old Fund	\$ 116,425
Revenue Shortfall Reserve Fund - Part B	97,700
Revenue Shortfall Reserve Fund	91,159
Public Employees Insurance Agency	29,525
Coal Workers' Pneumoconiosis Fund	24,105
Board of Risk and Insurance Management	15,028
Workers' Compensation Self-Insured Employer Security Risk Pool	5,237
Workers' Compensation Self-Insured Employer Guaranty Risk Pool	3,343
Workers' Compensation Uninsured Employers' Fund	1,277
Total	<u>\$ 383,799</u>



**Financial Statements - Unaudited**

**October 31, 2018**



# TRS Annuity Pool

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## **Financial Statements - Unaudited October 31, 2018**

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# TRS Annuity Pool

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**Statement of Net Position - Unaudited**  
**October 31, 2018**  
*(Amounts in thousands)*

<b>Assets</b>		\$	-
<b>Liabilities</b>			
Accrued expenses			<u>16</u>
	<b>Net position</b>	\$	<u><u>(16)</u></u>

*See accompanying notes to financial statements.*

## TRS Annuity Pool

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**Statement of Changes in Net Position - Unaudited**  
**Period Ended October 31, 2018\***  
*(Amounts in thousands)*

	<u>Month</u>	<u>Year To Date</u>
<b>Investment income</b>	\$ -	\$ -
<b>Expenses</b>		
Professional service fees	<u>(14)</u>	<u>(56)</u>
<b>Net investment loss</b>	<u>(14)</u>	<u>(56)</u>
<b>Capital transactions</b>		
Contributions by TRS	<u>36</u>	<u>170</u>
<b>Increase in net position</b>	22	114
<b>Net position, beginning of period</b>	<u>(38)</u>	<u>(130)</u>
<b>Net position, end of period</b>	<u>\$ (16)</u>	<u>\$ (16)</u>

*\*The WVIMB operates on a fiscal year beginning on July 1. The "year to date" information is for the period July 1 through the month listed. See accompanying notes to financial statements.*

# TRS Annuity Pool

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## Notes to Financial Statements

(Amounts in thousands, except share data)

### NOTE 1. DESCRIPTION OF THE ENTITY

The West Virginia Investment Management Board (IMB) was organized on April 25, 1997, as a public body corporate created by *West Virginia Code §12-6-1* to provide prudent fiscal administration and investment management services to designated state pension funds, the state's Workers' Compensation and Coal Workers' Pneumoconiosis funds, and certain other state government funds.

A Board of Trustees, consisting of thirteen members, governs the IMB. The Governor, the State Auditor, and the State Treasurer are ex officio members of the Board of Trustees. The Governor appoints all other Trustees for a term of six years.

The IMB operates on a fiscal year beginning July 1 and ending June 30.

The accompanying financial statements reflect only the investments and investment related operations of the TRS Annuity Pool (Pool). They do not reflect activity of the other investment pools under the control of the IMB or the Administrative Fund of the IMB, or any other assets or liabilities, or restrictions thereon, or the various investment pool participants. Accordingly, these financial statements are not intended to and do not present the comprehensive financial position and operations of the IMB or any of the investment pool participants.

The IMB accounts for the Pool under U.S. Generally Accepted Accounting Principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB), using the economic resources measurement focus and accrual basis of accounting.

The Pool held an investment contract issued by the Variable Annuity Life Insurance Company (VALIC) strictly for the benefit of the Teachers' Retirement System (TRS). On December 10, 2008, the IMB assumed responsibility for this investment as part of the restructuring of the Teachers' Defined Contribution (TDC) plan, a separate retirement plan administered solely by the Consolidated Public Retirement System (CPRB), whereby certain TDC participants elected to transfer the ownership of their individual TDC retirement accounts to the TRS in exchange for current participation in the TRS defined benefit plan. The final amount transferred under the contract was \$248,293.

The IMB initially requested the immediate redemption of the entire balance but VALIC denied the request, claiming the amounts were subject to withdrawal restrictions. Effective April 23, 2009, the IMB, while reserving its rights under the contract, executed the appropriate forms with VALIC to elect to withdraw funds under the Five Year Equal Annual Installment method. By making this election, the guaranteed minimum annual yield of 4.5 percent became the fixed rate for this contract. The first four withdrawals of \$55,058 each occurred on May 4, 2009, 2010, 2011 and 2012. The final withdrawal of \$55,191 occurred on May 8, 2013. On that date, all remaining income, net of all management fees, was distributed to TRS and all units of ownership in the Pool were redeemed.

In response to VALIC's refusal to allow the IMB to liquidate the contract in its entirety, the IMB sued VALIC. A three-judge Business Court arbitration panel issued its decision on April 28, 2017, and no recovery was awarded to the IMB. An appeal was filed with the West Virginia Supreme Court of Appeals and it has issued an opinion affirming the decision of the arbitration panel. The IMB and the CPRB have filed a Petition for Rehearing asking the Supreme Court to revisit its decision. There are ongoing legal fees associated with this litigation and these expenses are accrued to the Pool. The funding for the payment of these expenses results from contributions by the TRS into the TRS Annuity Pool. No other management fees are charged to the Pool and none have been charged since the final withdrawal on May 8, 2013. Once this matter is finalized the TRS Annuity Pool will be closed.



# TRS Annuity Pool

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## Notes to Financial Statements

*(Amounts in thousands, except share data)*

### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

**Investment Valuation** - The investment contract held by this Pool was the sole investment of the Pool and it was fully redeemed on May 8, 2013. However, the Pool is to be kept open so that all on-going expenses associated with the investment contract can be properly reported and charged to the TRS.

**Use of Estimates** - The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Income Taxes** - The IMB is a public corporation organized under laws of the State of West Virginia and exempt from U.S. federal and state taxation. Accordingly, no provision for income taxes is required as of October 31, 2018.



**Financial Statements - Unaudited**

**October 31, 2018**



# Private Markets Pool

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## Financial Statements - Unaudited October 31, 2018

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# Private Markets Pool

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## Statement of Net Position - Unaudited October 31, 2018

(Amounts in thousands, except unit data)

### Assets

Investments, at fair value:	
Alternative investments	\$ 3,647,634
Equity investments	275,993
Fixed income investments	9,800
Money market mutual fund	151,179
Securities lending collateral	7,999
Cash	81
Receivables:	
Investments sold	3,592
Interest, dividends, and other investment income	514
	<hr/>
<b>Total assets</b>	<b>4,096,792</b>

### Liabilities

Accrued expenses	795
Payable for investments purchased	2,012
Payable upon return of securities loaned	7,999
	<hr/>
<b>Total liabilities</b>	<b>10,806</b>
	<hr/>
<b>Net position</b>	<b>\$ 4,085,986</b>

### Unit data

Units outstanding	237,864,541
Net position, unit price	<u><u>\$ 17.18</u></u>

See accompanying notes to financial statements.

## Private Markets Pool

**Statement of Changes in Net Position - Unaudited**  
**Period Ended October 31, 2018\***  
*(Amounts in thousands)*

	<b>Month</b>	<b>Year To Date</b>
<b>Investment income</b>		
Net decrease in fair value of investments	\$ (2,771)	\$ (10,629)
Income from partnerships and funds	12,850	32,508
Interest, dividends, and other investment income	443	2,255
Fund closing interest	53	224
Securities lending income	16	58
<b>Total investment income</b>	10,591	24,416
<b>Expenses</b>		
Investment advisor fees	(78)	(322)
Custodian bank fees	(7)	(35)
Management and other allocated fees	(109)	(426)
Professional service fees - direct	(138)	(462)
Management fees - external	(1,151)	(1,560)
Securities lending expenses	(2)	(17)
<b>Total expenses</b>	(1,485)	(2,822)
<b>Net investment income</b>	9,106	21,594
<b>Unit transactions</b>		
Proceeds from sale of units	53,223	54,048
Amount paid for repurchase of units	-	(141,156)
<b>Net increase (decrease) from unit transactions</b>	53,223	(87,108)
<b>Increase (decrease) in net position</b>	62,329	(65,514)
<b>Net position, beginning of period</b>	4,023,657	4,151,500
<b>Net position, end of period</b>	\$ 4,085,986	\$ 4,085,986

*\*The WVIMB operates on a fiscal year beginning on July 1. The "year to date" information is for the period July 1 through the month listed. See accompanying notes to financial statements.*

# Private Markets Pool

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## Notes to Financial Statements (Amounts in thousands, except share data)

### NOTE 1. DESCRIPTION OF THE ENTITY

The West Virginia Investment Management Board (IMB) was organized on April 25, 1997, as a public body corporate created by *West Virginia Code §12-6-1* to provide prudent fiscal administration and investment management services to designated state pension funds, the state's Workers' Compensation and Coal Workers' Pneumoconiosis funds, and certain other state government funds.

A Board of Trustees, consisting of thirteen members, governs the IMB. The Governor, the State Auditor, and the State Treasurer are ex officio members of the Board of Trustees. The Governor appoints all other Trustees for a term of six years.

The IMB operates on a fiscal year beginning July 1 and ending June 30.

The accompanying financial statements reflect only the investments and investment related operations of the Pool. They do not reflect activity of the other investment pools under the control of the IMB or the Administrative Fund of the IMB, or any other assets or liabilities, or restrictions thereon, or the various investment pool participants. Accordingly, these financial statements are not intended to and do not present the comprehensive financial position and operations of the IMB or any of the investment pool participants.

The IMB accounts for the Pool under U.S. Generally Accepted Accounting Principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB), using the economic resources measurement focus and the accrual basis of accounting.

The Pool holds the IMB's investments in a commingled equity fund, opportunistic income funds, private equity funds, real estate investment trusts (REITs), and real estate limited partnerships and funds. The selection of investments in the Private Markets Pool are approved by the Board of Trustees or by its established committees.

### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

**Investment Valuation** - The IMB reports its investments at fair value in accordance with GASB Statement No. 72. Refer to Note 3 for further discussion and presentation of the reporting requirements under GASB Statement No. 72.

Fair value of the Pool's portfolio securities is determined on the last business day of each month as follows:

- Investments in private equity partnerships, real estate limited partnerships and funds, opportunistic income funds, and other private funds are not securities for which market quotations are readily available. The IMB has concluded that the net asset value reported by the general partners or fund administrators approximates the fair value of these investments and consequently these investments are carried at net asset value as a practical expedient for fair market value. Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the net asset value of the funds and, consequently, the fair value of the IMB's interests in the funds. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is therefore reasonably possible that if the IMB were to sell these investments in the secondary market a buyer may require a discount to the reported net asset value, and the discount could be significant. The IMB believes that the net asset value of such investments is a reasonable estimate of fair value as of October 31, 2018.
- Equity securities are valued at the last sale price or official closing price reported in the market in which they are primarily traded.
- Equity securities that trade in non-U.S. markets are valued in U.S. Dollars using period end spot market exchange rates as supplied by the Pool's custodian.
- Fixed income securities are valued according to prices furnished by independent pricing services to the Pool's custodian. These services determine the security prices by a number of methods including, but not limited to, dealer quotes, live market trading levels when available, live feeds of trade execution data, spreads over U.S. Treasury securities, and other models and formulae appropriate to the specific security type.



# Private Markets Pool

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## Notes to Financial Statements (Amounts in thousands, except share data)

### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

- Open-end regulated investment companies or other commingled investment funds are valued at the net asset value of the fund as reported by the fund's administrator.
- Repurchase agreements and time deposits are valued at cost, provided such amount approximates fair value.

Investments for which the fair value cannot be determined by one of the above listed processes are valued at fair value as determined in accordance with the IMB's established procedures.

**Repurchase Agreements** - In connection with transactions in repurchase agreements, it is the IMB's policy that its designated custodian or mutual third party take possession of the underlying collateral securities, the fair value of which exceeds the principal amount of the repurchase transaction at all times. If the seller defaults, and the fair value of the collateral declines, realization of the collateral by the IMB may be delayed or limited.

**Securities Lending** - The IMB, through its lending agent, the Bank of New York Mellon (BNYM), loans securities of the Pool to various brokers on a temporary basis. Each transaction for international and domestic securities is secured by collateral based on the market value of the securities loaned. The required collateral percentage varies based on the type of collateral received and the type of security loaned. For U.S. securities, the required percentage of cash collateral and non-cash collateral consisting of debt obligations and securities issued by the United States Government or its agencies or instrumentalities is at least 102 percent of the market value of the securities loaned plus accrued income, if applicable. For international securities, the required percentage is 105 percent unless the foreign securities loaned are denominated and payable in U.S. Dollars, then the collateral shall be at least 102 percent of the market value of the securities loaned. Loans of equity securities may also be collateralized by equity securities and the required percentage of non-cash collateral consisting of equity securities is at least 107 percent of the market value of the securities loaned. Cash collateral received is invested in repurchase agreements, money market mutual funds, and time deposits. Such investments, except for repurchase transactions, are made at the risk of the Pool and, as such, the Pool is liable for investment losses. The lending agent contractually indemnifies the IMB for any repurchase agreement investment losses. Investments made with cash are reported at fair value on the Statement of Net Position. Securities loaned remain on the Statement of Net Position. The IMB has the right under the lending agreement to recover the securities from the borrower on demand. The IMB receives compensation in the form of loan premium fees and income from the investment of the cash collateral. Expenses related to the lending of securities are rebates paid by the lending agent to brokers and the lending agent's fees for its services. Securities lending income and expenses are recorded in the Statement of Changes in Net Position. The IMB also continues to receive interest or dividends on the securities loaned. Gains or losses in the fair value of the securities loaned that may occur during the term of the loans are reflected in the Statement of Changes in Net Position as a net increase (decrease) in fair value of investments.

**Foreign Currency** - Amounts denominated in or expected to settle in foreign currencies are translated into U.S. dollars at exchange rates reported by the Bank of New York Mellon on the following basis:

- Market value of investment securities, other assets and liabilities - at the closing rate of exchange at the valuation date.
- Purchases and sales of investment securities, income and expenses - at the rate of exchange prevailing on the respective dates of such transactions.

**Foreign Currency Spot Contracts** - A foreign currency contract is an agreement between two parties to exchange different currencies at a specified exchange rate at an agreed upon future date. These contracts, when entered into, correspond to investment transactions trading in foreign currencies. Risks associated with such contracts include movement in the value of the foreign currency relative to the U.S. dollar and the ability of the counterparty to perform. These contracts have relatively short durations and are valued at the prevailing market exchange rates at month end.

**Investment Transactions** - Investment transactions are accounted for on a trade date basis. Interest income is recognized on the accrual basis. Dividend income is recognized on the ex-dividend date.

# Private Markets Pool

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## Notes to Financial Statements (Amounts in thousands, except share data)

### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Use of Estimates** - The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Income from Partnerships** - Income from private equity partnerships, real estate partnerships, opportunistic income funds, and other private funds are recognized when distributed to the partners.

**Unit Valuation and Participant Transactions** - The unit price of the Pool is calculated on the last business day of the month by dividing the net position of the Pool by the number of outstanding units. Participant transactions are executed at the unit price at the time of the purchase or redemption.

**Distributions to Participants** - The Pool does not routinely distribute dividends of net investment income.

**Expenses** - The IMB's Trustees adopt an annual budget and fee schedule for services to be provided to all of the investment pools under its management. Each investment pool is charged for its direct investment-related cost and for its allocated share of other expenses. Direct investment-related costs include fees charged by external managers that are outside of their respective partnership or fund, the custodian bank, legal counsel, and the consultant. Other expenses are allocated to the individual pools based on asset size.

The IMB pays all expenses on behalf of the Pool. In addition to these direct and allocated expenses, the Pool bears certain expenses indirectly, such as fees of other investment funds in which the Pool invests that are reflected in the reported net asset value of such funds.

**Income Taxes** - The IMB is a public corporation organized under laws of the State of West Virginia and exempt from U.S. federal and state taxation. Accordingly, no provision for income taxes is required as of October 31, 2018.

In certain foreign countries the Pool's dividend income and capital gains may be taxable. Such taxes are generally withheld from the payments of these types of income and as a result there is no provision recorded for these taxes. In certain cases there may be a full or partial reclaim available for the withheld taxes. The outstanding reclaims are reported on the Statement of Net Position. Dividend income is reported net of non-reclaimable taxes withheld on the Statement of Changes in Net Position.

### NOTE 3. FAIR VALUE MEASUREMENTS

GASB Statement No. 72 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value of an investment is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., the exit price).

GASB Statement No. 72 established a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical financial instruments (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GASB Statement No. 72 are:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities at the reporting date.

Level 2 Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not considered active; observable inputs other than observable quoted prices for the asset or liability; or inputs derived principally from or corroborated by observable market data.

Level 3 Unobservable pricing inputs for assets and liabilities with redemption terms that are not short term.

## Private Markets Pool

### Notes to Financial Statements (Amounts in thousands, except share data)

#### NOTE 3. FAIR VALUE MEASUREMENTS (continued)

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

U.S. GAAP does not require the Pool to categorize within the fair value hierarchy table investments for which fair value is measured using the net asset value per share (NAV) as the practical expedient. The table that follows sets forth information about the level within the fair value hierarchy at which the Pool's assets and liabilities are measured at October 31, 2018. All of the Pool's investments in private equity partnerships, real estate limited partnerships and funds, opportunistic income funds, and other private funds were valued using the NAV. As such, they have not been categorized in the fair value hierarchy table.

Assets	Level 1	Level 2	Level 3	Total
Commingled equity fund	\$ 152,117	\$ -	\$ -	\$ 152,117
Foreign common stock	34,532	-	-	34,532
Money market mutual fund	151,179	-	-	151,179
Securities lending collateral	-	7,999	-	7,999
U.S. common stock	79,053	-	-	79,053
U.S. corporate bonds	-	9,800	-	9,800
U.S. preferred stock	10,291	-	-	10,291
Total	<u>\$ 427,172</u>	<u>\$ 17,799</u>	<u>\$ -</u>	<u>\$ 444,971</u>
Opportunistic income funds				465,665
Private equity partnerships				1,538,795
Real estate limited partnerships and funds				1,643,174
Total				<u>\$ 4,092,605</u>

The following table presents information on investments measured at the NAV as of October 31, 2018:

Strategies	Fair Value	Unfunded Commitments	Contractual Termination Date Range (a)	Redemption Frequency	Redemption Notice Period
Opportunistic income:					
Middle Market Loan Funds (b)	\$ 316,367	\$ 41,258	N/A	N/A	N/A
Real Estate Income Funds (c)	149,298	150,719	2021 to 2028	Quarterly	45 days
Private equity partnerships:					
Corporate Finance - Buyout (d)	885,921	652,519	2018 to 2033	N/A	N/A
Corporate Finance - Distressed Debt (e)	78,067	14,283	2018 to 2020	N/A	N/A
Corporate Finance - Growth Equity (f)	55,067	33,566	2020 to 2027	N/A	N/A
Corporate Finance - Hard Assets (g)	110,577	61,960	2018 to 2024	N/A	N/A
Corporate Finance - Mezzanine (h)	68,168	58,991	2019 to 2028	N/A	N/A
Corporate Finance - Turnaround (i)	80,421	62,814	2018 to 2026	N/A	N/A
Venture Capital (j)	260,574	92,428	2023 to 2033	N/A	N/A
Real estate limited partnerships and funds:					
Core Funds (k)	917,211	45,433	2020 to 2022	Quarterly	30-60 days
Opportunistic Funds (l)	260,432	203,877	2018 to 2028	N/A	N/A
Value Funds (m)	465,531	463,716	2018 to 2028	N/A	N/A
Total	<u>\$ 3,647,634</u>	<u>\$ 1,881,564</u>			

# Private Markets Pool

## Notes to Financial Statements (Amounts in thousands, except share data)

### NOTE 3. FAIR VALUE MEASUREMENTS (continued)

- (a) Investments without standard redemption frequencies cannot be redeemed until termination of the partnership.
- (b) Middle Market Loan Funds seek to generate current income while preserving capital primarily through investments in senior secured loans to middle market companies domiciled in North America.
- (c) Real Estate Income Funds invest in U.S. commercial real estate mortgage and debt investments.
- (d) Corporate Finance - Buyout funds acquire controlling or influential interests in companies.
- (e) Corporate Finance - Distressed Debt funds acquire the debt of companies experiencing operational or financial distress usually converting the debt to equity and exercising control of the business.
- (f) Corporate Finance - Growth Equity funds invest in companies to expand or restructure operations, enter new markets, or finance an acquisition.
- (g) Corporate Finance – Hard Assets funds acquire controlling or influential interests in companies operating in natural resources or infrastructure.
- (h) Corporate Finance - Mezzanine funds acquire or issue subordinated debentures frequently in businesses controlled by the General Partner, but in another Fund.
- (i) Corporate Finance - Turnaround funds acquire the debt and or equity of companies experiencing operational or financial distress in order to radically reorganize and improve the business.
- (j) Venture Capital funds make investments in early stage through late stage companies, frequently start-ups in technology or healthcare.
- (k) Core Funds are more conservative real estate investments that use a very modest level of financing to acquire and hold high-quality, stable properties typically located in major markets. These assets tend to have high occupancy rates, higher credit tenants, and staggered lease terms, with a number of long-term leases expiring in five-to-ten years.
- (l) Opportunistic Funds have higher risk/return profiles and have broad strategies to achieve these types of returns. Common strategies are properties that need significant rehabilitation or a total redevelopment to transition to a different type of property (for example, converting an office building to condominiums). It may also include new development, distressed debt strategies, and more complex transactions, as well as a more traditional value-add strategy that is financed with a higher amount of leverage.
- (m) Value Funds typically use more leverage than core funds and target higher return opportunities by acquiring properties that the manager believes they can add value through capital renovations to the physical facility or enhanced leasing and management activities. Most of these properties have in-place cash flow, which is expected to increase as the business plans are implemented. This could include making physical improvements to the asset that will allow it to command higher rents, increasing efforts to lease vacant space at the property to quality tenants, or improving the management of the property and thereby increasing customer satisfaction or lowering operating expenses where possible.

### NOTE 4. SECURITIES LENDING

The following table presents the amounts of various accounts related to securities lending at October 31, 2018:

	Fair Value
Securities on loan	\$ 17,205
Collateral received:	
Cash	\$ 7,999
Non-cash	10,354
Total collateral received	<u>\$ 18,353</u>

BNYM, as agent for the IMB, loans the IMB's securities to various counterparties. These transactions are executed under Master Securities Lending Agreements (MSLA) which permit BNYM under certain circumstances, such as defaults, to offset amounts payable to the same counterparty against amounts to be received and thus create one single net payment due to or from the counterparty. The amounts listed in the above table represent all securities loaned which are subject to a MSLA on a net payment basis. The IMB has elected not to offset the fair value of the securities on loan against the liability for the return of the collateral on the Statement of Net Position.

# Private Markets Pool

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## Notes to Financial Statements (Amounts in thousands, except share data)

### NOTE 5. SCHEDULE OF PARTICIPATION

The following schedule provides the value of participants' accounts in the Pool at October 31, 2018:

<u>Participant</u>	<u>Account Value</u>
Teachers' Retirement System	\$ 1,867,100
Public Employees' Retirement System	1,642,801
West Virginia Retiree Health Benefit Trust Fund	221,646
State Police Death, Disability and Retirement Fund	164,815
Deputy Sheriff's Retirement System	53,808
Judges' Retirement System	50,017
State Police Retirement System	46,468
Emergency Medical Services Retirement System	19,336
Wildlife Endowment Fund	15,566
Municipal Police Officers' and Firefighters' Retirement System	2,034
Berkeley County Development Authority	1,900
Municipal Policemen's or Firemen's Pension and Relief Funds	495
Total	<u>\$ 4,085,986</u>



**Financial Statements - Unaudited**

**October 31, 2018**





# Hedge Fund Pool

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## **Financial Statements - Unaudited October 31, 2018**

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# Hedge Fund Pool

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**Statement of Net Position - Unaudited**  
**October 31, 2018**  
*(Amounts in thousands, except unit data)*

**Assets**

Investments, at fair value:		
Hedge funds	\$	2,132,883
Money market mutual fund		21,747
Cash		8,499
Receivables:		
Investment funds redeemed		3,629
Accrued interest and dividends		<u>154</u>
	<b>Total assets</b>	<b>2,166,912</b>

**Liabilities**

Accrued expenses		<u>191</u>
	<b>Net position</b>	<b><u><u>\$ 2,166,721</u></u></b>

**Unit data**

Units outstanding		146,278,478
Net position, unit price	\$	<u><u>14.81</u></u>

*See accompanying notes to financial statements.*

# Hedge Fund Pool

**Statement of Changes in Net Position - Unaudited**  
**Period Ended October 31, 2018\***  
*(Amounts in thousands)*

	<u>Month</u>	<u>Year To Date</u>
<b>Investment income</b>		
Net decrease in fair value of investments	\$ (29,221)	\$ (16,371)
Interest, dividends, and other investment income	<u>37</u>	<u>79</u>
<b>Total investment income</b>	(29,184)	(16,292)
<b>Expenses</b>		
Professional service fees - direct	(41)	(141)
Management and other allocated fees	<u>(59)</u>	<u>(233)</u>
<b>Total expenses</b>	<u>(100)</u>	<u>(374)</u>
<b>Net investment loss</b>	(29,284)	(16,666)
<b>Unit transactions</b>		
Proceeds from sale of units	7,067	21,175
Amount paid for repurchase of units	<u>(7,000)</u>	<u>(77,946)</u>
<b>Net increase (decrease) from unit transactions</b>	<u>67</u>	<u>(56,771)</u>
<b>Decrease in net position</b>	(29,217)	(73,437)
<b>Net position, beginning of period</b>	<u>2,195,938</u>	<u>2,240,158</u>
<b>Net position, end of period</b>	<u><u>\$ 2,166,721</u></u>	<u><u>\$ 2,166,721</u></u>

\*The WVIMB operates on a fiscal year beginning on July 1. The "year to date" information is for the period July 1 through the month listed.  
See accompanying notes to financial statements.

# Hedge Fund Pool

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## Notes to Financial Statements (Amounts in thousands, except share data)

### NOTE 1. DESCRIPTION OF THE ENTITY

The West Virginia Investment Management Board (IMB) was organized on April 25, 1997, as a public body corporate created by *West Virginia Code §12-6-1* to provide prudent fiscal administration and investment management services to designated state pension funds, the state's Workers' Compensation and Coal Workers' Pneumoconiosis funds, and certain other state government funds.

A Board of Trustees, consisting of thirteen members, governs the IMB. The Governor, the State Auditor, and the State Treasurer are ex officio members of the Board of Trustees. The Governor appoints all other Trustees for a term of six years.

The IMB operates on a fiscal year beginning July 1 and ending June 30.

The accompanying financial statements reflect only the investments and investment related operations of the IMB's Hedge Fund Pool (Pool). They do not reflect activity of the other investment pools under the control of the IMB or the Administrative Fund of the IMB, or any other assets or liabilities, or restrictions thereon, or the various investment pool participants. Accordingly, these financial statements are not intended to and do not present the comprehensive financial position and operations of the IMB or any of the investment pool participants.

The IMB accounts for the Pool under U.S. Generally Accepted Accounting Principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB), using the economic resources measurement focus and the accrual basis of accounting.

The Pool was established to hold the IMB's investments in hedge funds. Albourne America, LLC has been retained by the IMB to provide consulting services for this investment strategy.

### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

**Investment Valuation** - The IMB reports its investments at fair value in accordance with GASB Statement No. 72. Refer to Note 3 for further discussion and presentation of the reporting requirements under GASB Statement No. 72.

Fair value of the Pool's portfolio securities is determined on the last business day of each month as follows:

- Investments in hedge funds are not securities for which market quotations are readily available. The IMB has concluded that the net asset value reported by the underlying funds approximates the fair value of these investments and consequently these investments are carried at net asset value as a practical expedient for fair market value. These investments are redeemable with the fund at net asset value under the original terms of the agreements and operations of the underlying fund. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the net asset value of the funds and, consequently, the fair value of the IMB's interests in the funds. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is therefore reasonably possible that if the IMB were to sell these investments in the secondary market a buyer may require a discount to the reported net asset value, and the discount could be significant. The IMB believes that the net asset value of such investments is a reasonable estimate of fair value as of October 31, 2018.
- Open-end regulated investment companies or other commingled investment funds are valued at the net asset value of the fund as reported by the fund's administrator.

Investments for which the fair value cannot be determined by one of the above listed processes are valued at fair value as determined in accordance with the IMB's established procedures.

**Investment Transactions** - Investment transactions are accounted for on a trade date basis. Interest income is recognized on the accrual basis. Dividend income is recognized on the ex-dividend date.

# Hedge Fund Pool

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## Notes to Financial Statements (Amounts in thousands, except share data)

### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Use of Estimates** - The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Unit Valuation and Participant Transactions** - The unit price of the Pool is calculated on the last business day of the month by dividing the net position of the Pool by the number of outstanding units. Participant transactions are executed at the unit price at the time of the purchase or redemption.

**Distributions to Participants** - The Pool does not routinely distribute dividends of net investment income.

**Expenses** - The IMB's Trustees adopt an annual budget and fee schedule for services to be provided to all of the investment pools under its management. Each investment pool is charged for its direct investment-related cost and for its allocated share of other expenses. These other expenses are allocated to the individual pools based on asset size. The IMB pays all expenses on behalf of the Pool. In addition to these direct and allocated expenses, the Pool bears certain expenses indirectly, such as fees of other investment funds in which the Pool invests that are reflected in the reported net asset value of such funds.

**Income Taxes** - The IMB is a public corporation organized under laws of the State of West Virginia and exempt from U.S. federal and state taxation. Accordingly, no provision for income taxes is required as of October 31, 2018.

### NOTE 3. FAIR VALUE MEASUREMENTS

GASB Statement No. 72 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value of an investment is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., the exit price).

GASB Statement No. 72 established a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical financial instruments (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GASB Statement No. 72 are:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities at the reporting date.

Level 2 Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not considered active; observable inputs other than observable quoted prices for the asset or liability; or inputs derived principally from or corroborated by observable market data.

Level 3 Unobservable pricing inputs for assets and liabilities with redemption terms that are not short term.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

# Hedge Fund Pool

## Notes to Financial Statements (Amounts in thousands, except share data)

### NOTE 3. FAIR VALUE MEASUREMENTS (continued)

U.S. GAAP does not require the Pool to categorize within the fair value hierarchy table investments for which fair value is measured using the net asset value per share (NAV) as the practical expedient. The table that follows sets forth information about the level within the fair value hierarchy at which the Pool's assets and liabilities are measured at October 31, 2018. All of the Pool's investments in hedge funds were valued using the NAV. As such, they have not been categorized in the fair value hierarchy.

Assets	Level 1	Level 2	Level 3	Total
Money market mutual fund	\$ 21,747	\$ -	\$ -	\$ 21,747
Hedge funds				2,132,883
Total				\$ 2,154,630

The following table presents information on investments measured at the NAV as of October 31, 2018:

Hedge Fund Strategies	Fair Value	Redemption Frequency	Redemption Notice Period
Directional (a)	\$ 219,576	Monthly, Quarterly	3 to 30 days
Equity long/short (b)	266,595	Monthly, Quarterly, Every 3 years	30 to 60 days
Event-driven (c)	40,555	Quarterly	65 days
Long-biased (d)	62,059	Monthly	90 days
Multi-strategy (e)	1,269,167	Monthly, Quarterly, Annually	3 to 95 days
Relative-value (f)	274,931	Monthly, Quarterly	45 to 60 days
Total	\$ 2,132,883		

- (a) Directional strategies employ various techniques to forecast the direction of segments of the market and then invest in either long or short positions to take advantage of that. The segments may be geographic economies, industry sectors, currency, or asset class. The investments may be in physical securities or derivatives. The strategies may be trend-following or mean-reverting and may be specific to that segment or universally applied across them.
- (b) An equity long/short strategy is an investing strategy, used primarily by hedge funds, that involves taking long positions in stocks that are expected to increase in value and short positions in stocks that are expected to decrease in value. Investments representing approximately 61 percent of the fair value of the investments in this strategy are subject to maximum withdrawal restrictions.
- (c) Event-driven managers maintain positions in companies currently or prospectively involved in various corporate transactions including, but not limited to, mergers, restructurings, financial distress, tender offers, shareholder buybacks, debt exchanges, security issuance or other capital structure adjustments. Security types can range from most senior in the capital structure to most junior or subordinated, and frequently involve additional derivative securities. Event-driven exposure includes a combination of sensitivities to equity markets, credit markets and company-specific developments. The sole fund in this investment strategy is subject to maximum withdrawal restrictions.
- (d) Long-biased strategies employ analytical techniques in which the investment thesis is predicated on assessment of the valuation characteristics on the underlying companies with the goal of identifying undervalued companies. Long-biased strategies may vary the investment level or the level of long exposure over market cycles, but the primary distinguishing characteristic is that the manager maintains consistent long exposure.
- (e) Multi-strategy managers combine several strategies within the same fund in order to provide diversification benefits to reduce return volatility and decrease asset-class and single-strategy risks. These funds typically add incremental returns through active allocation adjustments based on market opportunities. Risk is managed through a combination of quantitative and qualitative constraints including, but not limited to, active risk, liquidity risk, currency risk, manager risk, derivatives risk, and leverage risk. Investments representing approximately 45 percent of the fair value of the investments in this strategy are subject to maximum withdrawal restrictions.

# Hedge Fund Pool

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## Notes to Financial Statements (Amounts in thousands, except share data)

### NOTE 3. FAIR VALUE MEASUREMENTS (continued)

- (f) Relative-value managers maintain positions in which the investment thesis is predicated on the realization of a valuation discrepancy in the relationship between multiple securities. Managers employ a variety of fundamental and quantitative techniques to establish investment insights, and security types range broadly across equity, fixed income, derivative or other security types. Fixed income strategies are typically quantitatively driven to measure the existing relationship between instruments and, in some cases, identify attractive positions in which the risk-adjusted spread between these instruments represents an attractive opportunity. Investments representing approximately 37 percent of the fair value of the investments in this strategy are subject to maximum withdrawal restrictions.

### NOTE 4. SCHEDULE OF PARTICIPATION

The following schedule provides the value of participants' accounts in the Pool at October 31, 2018:

<u>Participant</u>	<u>Account Value</u>
Teachers' Retirement System	\$ 814,535
Public Employees' Retirement System	720,675
Workers' Compensation Old Fund	187,677
West Virginia Retiree Health Benefit Trust Fund	96,304
State Police Death, Disability and Retirement Fund	70,506
Coal Workers' Pneumoconiosis Fund	53,285
Public Employees Insurance Agency	42,865
West Virginia Department of Environmental Protection Agency	42,266
Board of Risk and Insurance Management	32,724
Deputy Sheriff's Retirement System	23,380
Judges' Retirement System	21,824
State Police Retirement System	20,097
Workers' Compensation Self-Insured Employer Security Risk Pool	11,575
Emergency Medical Services Retirement System	8,391
Workers' Compensation Self-Insured Employer Guaranty Risk Pool	7,355
Wildlife Endowment Fund	6,597
Workers' Compensation Uninsured Employers' Fund	2,783
West Virginia Department of Environmental Protection Trust	1,939
Municipal Police Officers' and Firefighters' Retirement System	856
Berkeley County Development Authority	825
Municipal Policemen's or Firemen's Pension and Relief Funds	262
Total	<u>\$ 2,166,721</u>