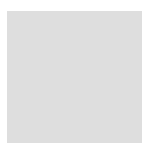
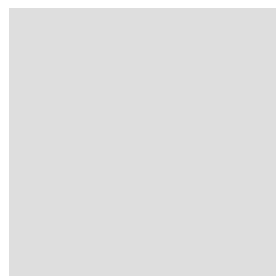
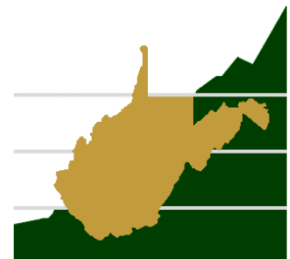


# West Virginia Investment Management Board

## Financial Statements

August 31, 2019





## **Financial Statements – Unaudited**

August 31, 2019

### **Order of Presentation**

Domestic Equity

International Qualified

International Nonqualified

International Equity

Short-Term Fixed Income

Total Return Fixed Income

Core Fixed Income

TIPS

Private Markets

Hedge Fund



**Financial Statements - Unaudited**

**August 31, 2019**



# Domestic Equity Pool

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## **Financial Statements - Unaudited August 31, 2019**

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# Domestic Equity Pool

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## Statement of Net Position - Unaudited

August 31, 2019

(Amounts in thousands, except unit data)

### Assets

Investments, at fair value:		
Equity investments	\$	4,522,128
Money market mutual fund		25,275
Cash		45,254
Receivables:		
Investments sold		5,498
Dividends and other investment income		3,671
		<hr/>
<b>Total assets</b>		4,601,826

### Liabilities

Accrued expenses		553
Payable for investments purchased		4,815
		<hr/>
<b>Total liabilities</b>		5,368
		<hr/>
<b>Net position</b>	\$	<u>4,596,458</u>

### Unit data

Units outstanding		149,792,818
Net position, unit price	\$	<u>30.69</u>

See accompanying notes to financial statements.



## Domestic Equity Pool

**Statement of Changes in Net Position - Unaudited**  
**Period Ended August 31, 2019\***  
*(Amounts in thousands)*

	<b>Month</b>	<b>Year To Date</b>
<b>Investment income</b>		
Net decrease in fair value of investments	\$ (97,842)	\$ (38,146)
Interest, dividends, and other investment income	4,836	6,821
Securities lending income	77	547
<b>Total investment income</b>	(92,929)	(30,778)
<b>Expenses</b>		
Investment advisor fees	(118)	(283)
Custodian bank fees	(9)	(20)
Management and other allocated fees	(125)	(249)
Securities lending expenses	(47)	(431)
<b>Total expenses</b>	(299)	(983)
<b>Net investment loss</b>	(93,228)	(31,761)
<b>Unit transactions</b>		
Proceeds from sale of units	8,234	100,559
Amount paid for repurchase of units	(62,324)	(62,329)
<b>Net increase (decrease) from unit transactions</b>	(54,090)	38,230
<b>Increase (decrease) in net position</b>	(147,318)	6,469
<b>Net position, beginning of period</b>	4,743,776	4,589,989
<b>Net position, end of period</b>	\$ 4,596,458	\$ 4,596,458

*\*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 IMB's Domestic 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'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. 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 August 31, 2019.

### 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 August 31, 2019:

Assets	Level 1	Level 2	Level 3	Total
Commingled equity fund	\$ 1,888,629	\$ -	\$ -	\$ 1,888,629
Common stock	2,633,499	-	-	2,633,499
Money market mutual fund	25,275	-	-	25,275
Total	<u>\$ 4,547,403</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,547,403</u>

# Domestic Equity 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 August 31, 2019:

<u>Participant</u>	<u>Account Value</u>
Teachers' Retirement System	\$ 1,923,724
Public Employees' Retirement System	1,687,467
West Virginia Retiree Health Benefit Trust Fund	259,459
State Police Death, Disability and Retirement Fund	168,372
Workers' Compensation Old Fund	160,081
Deputy Sheriff's Retirement System	57,350
Judges' Retirement System	52,178
Revenue Shortfall Reserve Fund - Part B	51,574
State Police Retirement System	51,405
West Virginia Department of Environmental Protection Agency	39,894
Coal Workers' Pneumoconiosis Fund	34,660
Public Employees Insurance Agency	27,413
Board of Risk and Insurance Management	23,145
Emergency Medical Services Retirement System	20,838
Wildlife Endowment Fund	15,688
Workers' Compensation Self-Insured Employer Security Risk Pool	7,606
Workers' Compensation Self-Insured Employer Guaranty Risk Pool	5,002
West Virginia Department of Environmental Protection Trust	2,928
Municipal Police Officers' and Firefighters' Retirement System	2,801
Workers' Compensation Uninsured Employers' Fund	1,979
Berkeley County Development Authority	1,528
Municipal Policemen's or Firemen's Pension and Relief Funds	1,366
Total	<u>\$ 4,596,458</u>



**Financial Statements - Unaudited**

**August 31, 2019**





# International Qualified Pool

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## **Financial Statements - Unaudited August 31, 2019**

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# International Qualified Pool

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**Statement of Net Position - Unaudited**  
**August 31, 2019**  
*(Amounts in thousands, except unit data)*

**Assets**

Investment in commingled equity fund at fair value \$ 1,229,355

**Liabilities**

Accrued expenses 68

**Net position** \$ 1,229,287

**Unit data**

Units outstanding 17,363,796

Net position, unit price \$ 70.80

*See accompanying notes to financial statements.*

## International Qualified Pool

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**Statement of Changes in Net Position - Unaudited**  
**Period Ended August 31, 2019\***  
*(Amounts in thousands)*

	<u>Month</u>	<u>Year To Date</u>
<b>Investment income</b>		
Net decrease in fair value of investments	\$ (44,686)	\$ (71,103)
<b>Expenses</b>		
Investment advisor fees	(527)	(1,073)
Management and other allocated fees	<u>(33)</u>	<u>(68)</u>
<b>Total expenses</b>	<u>(560)</u>	<u>(1,141)</u>
<b>Net investment loss</b>	(45,246)	(72,244)
<b>Unit transactions</b>		
Proceeds from sale of units	125	156
Amount paid for repurchase of units	<u>(100)</u>	<u>(100)</u>
<b>Net increase from unit transactions</b>	<u>25</u>	<u>56</u>
<b>Decrease in net position</b>	(45,221)	(72,188)
<b>Net position, beginning of period</b>	<u>1,274,508</u>	<u>1,301,475</u>
<b>Net position, end of period</b>	<u>\$ 1,229,287</u>	<u>\$ 1,229,287</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

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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 August 31, 2019.

### 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 Qualified 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 August 31, 2019:

<u>Participant</u>	<u>Account Value</u>
Teachers' Retirement System	\$ 594,511
Public Employees' Retirement System	527,037
State Police Death, Disability and Retirement Fund	52,473
Deputy Sheriff's Retirement System	17,305
Judges' Retirement System	16,072
State Police Retirement System	14,709
Emergency Medical Services Retirement System	6,155
Municipal Police Officers' and Firefighters' Retirement System	587
Municipal Policemen's or Firemen's Pension and Relief Funds	438
Total	<u>\$ 1,229,287</u>

**Financial Statements - Unaudited**

**August 31, 2019**





# International Nonqualified Pool

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## **Financial Statements - Unaudited August 31, 2019**

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# International Nonqualified Pool

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**Statement of Net Position - Unaudited**  
**August 31, 2019**  
*(Amounts in thousands, except unit data)*

**Assets**

Investment in commingled equity fund at fair value \$ 198,617

**Liabilities**

Accrued expenses 11

**Net position** \$ 198,606

**Unit data**

Units outstanding 3,066,225

Net position, unit price \$ 64.77

*See accompanying notes to financial statements.*

## International Nonqualified Pool

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### Statement of Changes in Net Position - Unaudited

Period Ended August 31, 2019\*

(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	\$ (7,104)	\$ (11,366)
<b>Expenses</b>		
Investment advisor fees	(98)	(198)
Management and other allocated fees	<u>(5)</u>	<u>(11)</u>
<b>Total expenses</b>	<u>(103)</u>	<u>(209)</u>
<b>Net investment loss</b>	(7,207)	(11,575)
<b>Unit transactions</b>		
Proceeds from sale of units	652	657
Amount paid for repurchase of units	<u>(648)</u>	<u>(648)</u>
<b>Net increase from unit transactions</b>	<u>4</u>	<u>9</u>
<b>Decrease in net position</b>	(7,203)	(11,566)
<b>Net position, beginning of period</b>	<u>205,809</u>	<u>210,172</u>
<b>Net position, end of period</b>	<u>\$ 198,606</u>	<u>\$ 198,606</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 August 31, 2019.

### 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 August 31, 2019:

<u>Participant</u>	<u>Account Value</u>
West Virginia Retiree Health Benefit Trust Fund	\$ 79,763
Workers' Compensation Old Fund	51,593
Revenue Shortfall Reserve Fund - Part B	16,062
West Virginia Department of Environmental Protection Agency	12,659
Coal Workers' Pneumoconiosis Fund	11,159
Public Employees Insurance Agency	8,814
Board of Risk and Insurance Management	7,351
Wildlife Endowment Fund	5,115
Workers' Compensation Self-Insured Employer Security Risk Pool	2,444
Workers' Compensation Self-Insured Employer Guaranty Risk Pool	1,594
West Virginia Department of Environmental Protection Trust	935
Workers' Compensation Uninsured Employers' Fund	627
Berkeley County Development Authority	490
Total	<u>\$ 198,606</u>

**Financial Statements - Unaudited**

**August 31, 2019**





# International Equity Pool

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**Financial Statements - Unaudited  
August 31, 2019**

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# International Equity Pool

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## Statement of Net Position - Unaudited

August 31, 2019

(Amounts in thousands, except unit data)

### Assets

Investments, at fair value:	
Equity investments	\$ 3,072,117
Money market mutual fund	27,582
Securities lending collateral	227
Cash	12,924
Receivables:	
Investments sold	5,185
Dividends and other investment income	16,705
	<hr/>
<b>Total assets</b>	<b>3,134,740</b>

### Liabilities

Accrued expenses	3,238
Accrued capital gains taxes	1,126
Payable for investments purchased	6,372
Payable upon return of securities loaned	227
	<hr/>
<b>Total liabilities</b>	<b>10,963</b>
	<hr/>
<b>Net position</b>	<b>\$ 3,123,777</b>

### Unit data

Units outstanding	105,192,669
Net position, unit price	\$ 29.70

See accompanying notes to financial statements.

# International Equity Pool

**Statement of Changes in Net Position - Unaudited**  
**Period Ended August 31, 2019\***  
*(Amounts in thousands)*

	<b>Month</b>	<b>Year To Date</b>
<b>Investment income</b>		
Net decrease in fair value of investments	\$ (149,140)	\$ (198,207)
Interest, dividends, and other investment income	8,037	20,984
Securities lending income	119	486
<b>Total investment income</b>	(140,984)	(176,737)
<b>Expenses</b>		
Investment advisor fees	(1,362)	(2,798)
Custodian bank fees	(123)	(263)
Management and other allocated fees	(87)	(176)
Securities lending expenses	(18)	(125)
<b>Total expenses</b>	(1,590)	(3,362)
<b>Net investment loss</b>	(142,574)	(180,099)
<b>Unit transactions</b>		
Proceeds from sale of units	10,566	82,750
Amount paid for repurchase of units	(42,144)	(42,211)
<b>Net increase (decrease) from unit transactions</b>	(31,578)	40,539
<b>Decrease in net position</b>	(174,152)	(139,560)
<b>Net position, beginning of period</b>	3,297,929	3,263,337
<b>Net position, end of period</b>	\$ 3,123,777	\$ 3,123,777

*\*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. The objective of the Pool is to outperform the international equity market as measured by the Morgan Stanley Capital International's All Country World Free Ex US Index over a full market cycle (three- to five-years), net of external investment management fees. 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.

### 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

## 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 August 31, 2019.

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.

The table below summarizes the valuation of the investment securities in accordance with GASB Statement No. 72 fair value hierarchy levels as of August 31, 2019:

Assets	Level 1	Level 2	Level 3	Total
Common stock	\$ 3,027,114	\$ -	\$ -	\$ 3,027,114
Money market mutual fund	27,582	-	-	27,582
Preferred stock	44,822	-	-	44,822
Rights	181	-	-	181
Securities lending collateral	78	149	-	227
Total	<u>\$ 3,099,777</u>	<u>\$ 149</u>	<u>\$ -</u>	<u>\$ 3,099,926</u>

# International Equity 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 August 31, 2019:

	Fair Value
Securities on loan	\$ 1,089
Collateral received:	
Cash	\$ 227
Non-cash	1,005
Total collateral received	\$ 1,232

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 August 31, 2019:

<u>Participant</u>	<u>Account Value</u>
Teachers' Retirement System	\$ 1,307,781
Public Employees' Retirement System	1,146,699
West Virginia Retiree Health Benefit Trust Fund	176,331
State Police Death, Disability and Retirement Fund	114,132
Workers' Compensation Old Fund	107,575
Deputy Sheriff's Retirement System	39,395
State Police Retirement System	36,120
Judges' Retirement System	35,630
Revenue Shortfall Reserve Fund - Part B	34,841
West Virginia Department of Environmental Protection Agency	26,983
Coal Workers' Pneumoconiosis Fund	23,243
Public Employees Insurance Agency	18,532
Board of Risk and Insurance Management	15,669
Emergency Medical Services Retirement System	14,524
Wildlife Endowment Fund	10,373
Workers' Compensation Self-Insured Employer Security Risk Pool	5,119
Workers' Compensation Self-Insured Employer Guaranty Risk Pool	3,362
Municipal Police Officers' and Firefighters' Retirement System	2,210
West Virginia Department of Environmental Protection Trust	1,971
Workers' Compensation Uninsured Employers' Fund	1,344
Berkeley County Development Authority	1,022
Municipal Policemen's or Firemen's Pension and Relief Funds	921
Total	\$ 3,123,777





**Financial Statements - Unaudited**

**August 31, 2019**



# Short-Term Fixed Income Pool

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## **Financial Statements - Unaudited August 31, 2019**

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# Short-Term Fixed Income Pool

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## Statement of Net Position - Unaudited

August 31, 2019

(Amounts in thousands, except unit data)

### Assets

Investments, at amortized cost:

U.S. Treasury and government agency bonds	\$	88,725
Commercial paper		18,961
Cash		<u>11</u>

**Total assets** 107,697

### Liabilities

Accrued expenses		<u>31</u>
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**Net position** \$ 107,666

### Unit data

Units outstanding		107,665,957
Net position, unit price	\$	<u>1.00</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 August 31, 2019\***  
*(Amounts in thousands)*

	<b>Month</b>	<b>Year To Date</b>
<b>Investment income</b>	\$ 290	\$ 761
<b>Expenses</b>		
Investment advisor fees	(7)	(17)
Custodian bank fees	(2)	(3)
Management and other allocated fees	(4)	(11)
<b>Total expenses</b>	(13)	(31)
<b>Net investment income</b>	277	730
<b>Distributions to unitholders</b>	(277)	(730)
<b>Unit transactions</b>		
Proceeds from sale of units	66,129	237,052
Reinvestment of distributions	277	730
Amount paid for repurchase of units	(206,993)	(316,146)
<b>Net decrease from unit transactions</b>	(140,587)	(78,364)
<b>Decrease in net position</b>	(140,587)	(78,364)
<b>Net position, beginning of period</b>	248,253	186,030
<b>Net position, end of period</b>	\$ 107,666	\$ 107,666

*\*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 meet the daily disbursements requested by participants and to invest any contributions until the time the money is transferred to other IMB operated investment pools without sustaining capital losses while earning a small return above inflation. The Pool's benchmark, net of external investment management fees, is the Citigroup 90-Day Treasury Bill Index. JP Morgan Investment Advisors, Inc. manages the Pool.

### 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 August 31, 2019.

### 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 August 31, 2019:

Assets	Level 1	Level 2	Level 3	Total
Commercial paper	\$ -	\$ 18,961	\$ -	\$ 18,961
U.S. Government agency bonds	-	48,803	-	48,803
U.S. Treasury bonds	-	39,922	-	39,922
Total	\$ -	\$ 107,686	\$ -	\$ 107,686

## 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 August 31, 2019:

<u>Participant</u>	<u>Account Value</u>
Workers' Compensation Old Fund	\$ 40,076
Revenue Shortfall Reserve Fund	18,449
Public Employees' Retirement System	11,243
Coal Workers' Pneumoconiosis Fund	10,491
West Virginia Prepaid Tuition Trust Fund	9,187
Board of Risk and Insurance Management	7,964
Teachers' Retirement System	2,494
Workers' Compensation Self-Insured Employer Security Risk Pool	2,228
Workers' Compensation Self-Insured Employer Guaranty Risk Pool	1,589
Workers' Compensation Uninsured Employers' Fund	1,383
State Police Death, Disability and Retirement Fund	1,025
State Police Retirement System	648
Judges' Retirement System	247
Municipal Police Officers' and Firefighters' Retirement System	191
Deputy Sheriff's Retirement System	185
Wildlife Endowment Fund	153
Municipal Policemen's or Firemen's Pension and Relief Funds	65
West Virginia Retiree Health Benefit Trust Fund	47
Emergency Medical Services Retirement System	1
Total	<u>\$ 107,666</u>



**Financial Statements - Unaudited**

**August 31, 2019**



# Total Return Fixed Income Pool

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## Financial Statements - Unaudited August 31, 2019

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# Total Return Fixed Income Pool

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## Statement of Net Position - Unaudited

August 31, 2019

(Amounts in thousands, except unit data)

### Assets

Investments, at fair value:		
Fixed income investments	\$	2,097,038
Derivative instruments		15,765
Money market mutual fund		154,054
Equity investments		13,236
Cash		72,064
Receivables:		
Interest, dividends, and other investment income		15,717
Investments sold		28,840
		<hr/>
<b>Total assets</b>		2,396,714

### Liabilities

Investments in derivative instruments at fair value		43,959
Accrued expenses		964
Payable for investments purchased		63,311
		<hr/>
<b>Total liabilities</b>		108,234

**Net position**      \$      2,288,480

### Unit data

Units outstanding		143,676,268
Net position, unit price	\$	15.93
		<hr/> <hr/>

See accompanying notes to financial statements.

## Total Return Fixed Income Pool

**Statement of Changes in Net Position - Unaudited**  
**Period Ended August 31, 2019\***  
*(Amounts in thousands)*

	<b>Month</b>	<b>Year To Date</b>
<b>Investment income</b>		
Net increase in fair value of investments	\$ 1,116	\$ 5,370
Interest, dividends, and other investment income	7,015	13,646
Securities lending income	39	218
<b>Total investment income</b>	8,170	19,234
<b>Expenses</b>		
Investment advisor fees	(419)	(810)
Custodian bank fees	(21)	(39)
Management and other allocated fees	(60)	(115)
Securities lending expenses	(29)	(175)
<b>Total expenses</b>	(529)	(1,139)
<b>Net investment income</b>	7,641	18,095
<b>Unit transactions</b>		
Proceeds from sale of units	207,675	208,119
Amount paid for repurchase of units	(355)	(157,227)
<b>Net increase from unit transactions</b>	207,320	50,892
<b>Increase in net position</b>	214,961	68,987
<b>Net position, beginning of period</b>	2,073,519	2,219,493
<b>Net position, end of period</b>	\$ 2,288,480	\$ 2,288,480

*\*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 enhance diversification but not at the expense of total return. The Pool's investment objective is to outperform the Bloomberg Barclays U.S. Universal Bond Index over three- to five-year periods, net of external investment management fees. Dodge & Cox, Franklin Templeton Investments, and Western Asset Management Company manage the Pool.

### 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 debt 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, interest rate, and total return 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 prevailing market exchange rates at month-end.
- Repurchase agreements and time deposits are valued at cost, provided such amount approximates fair value.
- Equity securities are valued at the last sale price or official closing price reported in the market in which they are primarily traded.

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 (BNYM) 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.

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 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.

# 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)

**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.

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.

**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 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 are 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.

**Total Return Swaps** - Total return swaps are agreements in which one party makes payments based on a fixed or variable rate, while the other party makes payments based on the total return of an underlying referenced instrument, applied to a notional principal amount for a specified period. The underlying referenced instrument can be either a security or market index. A total return swap allows the party receiving the total return to obtain exposure to the underlying referenced instrument without actually owning the underlying position.



# 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)

**Asset-Backed Securities** - The Pool invests in various asset-backed securities, mortgage-backed securities, and structured corporate debt. 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 August 31, 2019.

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.

### NOTE 3. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments held in the Pool include foreign exchange contracts, futures, options, credit default swaps, interest rate swaps, basis swaps, and total return 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.

## Total Return Fixed Income Pool

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

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

The table below presents the fair value and the year to date net increase (decrease) in fair value of derivative financial instruments outstanding as of and for the year ended August 31, 2019:

Derivative Type	Fair Value	Net Increase (Decrease) in Fair Value of Investments
Forwards:		
Foreign currency forward contracts	\$ 1,750	\$ 2,626
Futures contracts:		
Fixed income futures long	3,118	21,978
Fixed income futures short	(7,438)	(29,301)
Options contracts:		
Fixed income options purchased	1,078	(1,607)
Fixed income options written	(2,633)	2,051
Credit default swaptions purchased	406	33
Credit default swaptions written	(52)	76
Swaps:		
Credit default swaps protection buyer	(1,658)	1,179
Credit default swaps protection seller	43	(9)
Interest rate swaps	(24,106)	(13,218)
Total return swaps	1,298	631
Total	<u>\$ (28,194)</u>	<u>\$ (15,561)</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 August 31, 2019:

Derivative Type	Derivative Assets Subject to a MA	Derivatives Available for Offset	Non-Cash Collateral Received	Cash Collateral Received	Net Exposure
Foreign currency forwards	\$ 1,921	\$ (67)	\$ (1,854)	\$ -	\$ -
Swaptions	406	(48)	(328)	-	30
Swaps	2,754	(364)	(1,129)	-	1,261
Total	<u>\$ 5,081</u>	<u>\$ (479)</u>	<u>\$ (3,311)</u>	<u>\$ -</u>	<u>\$ 1,291</u>

At August 31, 2019, the Pool had pledged cash, net of amounts received from counterparties, of \$56,773 to cover margin requirements on open derivative contracts and counterparties had deposited, in segregated accounts, securities with a fair value of \$3,592 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.

## Total Return Fixed Income Pool

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

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

The following table provides the credit ratings for the Pool's derivative investments that are subject to counterparty credit risk as of August 31, 2019:

Derivative Type	Counterparty Rating	Fair Value
Foreign currency forward contracts	A	\$ 337
Foreign currency forward contracts	BBB	2,938
Credit default swaptions purchased	A	78
Credit default swaptions purchased	BBB	328
Credit default swaps protection seller	A	43

#### Interest Rate Risk

The following table provides the time to maturity for investment derivatives that are subject to interest rate risk as of August 31, 2019:

Derivative Type	Investment Maturities (in years)				
	Fair Value	Under-1	1-5	6-10	10+
Futures contracts:					
Fixed income futures long	\$ 3,118	\$ 3,118	\$ -	\$ -	\$ -
Fixed income futures short	(7,438)	(2,652)	(4,786)	-	-
Options contracts:					
Fixed income options purchased	1,078	1,038	40	-	-
Fixed income options written	(2,633)	(2,633)	-	-	-
Swaps:					
Interest rate swaps	(24,106)	1,309	(468)	(8,384)	(16,563)
Total	<u>\$ (29,981)</u>	<u>\$ 180</u>	<u>\$ (5,214)</u>	<u>\$ (8,384)</u>	<u>\$ (16,563)</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 August 31, 2019, the open positions in interest rate swaps denominated in U.S. dollars were as follows:

Maturity Date	Reference Rate	Notional	Fair Value
4/26/2022	Receive Fixed 2.25%, Pay Floating 3-Month Libor	\$ 59,678	\$ 637
2/15/2036	Receive Fixed 3.00%, Pay Floating 3-Month Libor	9,956	2,243
8/15/2024	Receive Floating 3-Month Libor, Pay Fixed 1.50%	55,290	(489)
8/23/2049	Receive Floating 3-Month Libor, Pay Fixed 1.66%	21,760	(598)
11/15/2044	Receive Floating 3-Month Libor, Pay Fixed 1.81%	6,079	(356)
11/15/2044	Receive Floating 3-Month Libor, Pay Fixed 1.85%	9,720	(653)
12/31/2025	Receive Floating 3-Month Libor, Pay Fixed 2.25%	28,768	(1,628)
4/26/2023	Receive Floating 3-Month Libor, Pay Fixed 2.30%	60,797	(665)
1/31/2026	Receive Floating 3-Month Libor, Pay Fixed 2.50%	99,252	(7,218)
8/15/2044	Receive Floating 3-Month Libor, Pay Fixed 2.75%	12,240	(3,170)
5/15/2044	Receive Floating 3-Month Libor, Pay Fixed 2.88%	10,941	(3,102)
5/15/2044	Receive Floating 3-Month Libor, Pay Fixed 3.00%	7,400	(2,295)
4/30/2026	Receive Floating Fed Funds, Pay Fixed 1.55%	36,959	(1,209)
		<u>\$ 418,840</u>	<u>\$ (18,503)</u>

## Total Return Fixed Income Pool

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

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

At August 31, 2019, the open positions in interest rate swaps denominated in foreign currencies were as follows:

Maturity Date	Reference Rate	Notional (USD)	Fair Value
8/13/2024	Receive Fixed 1.55%, Pay Floating 3-Month CAD CDOR	\$ 54,929	\$ 50
1/4/2027	Receive Fixed 7.02%, Pay Floating Brazil CDI	8,380	104
1/4/2027	Receive Fixed 7.04%, Pay Floating Brazil CDI	2,009	(9)
7/20/2029	Receive Fixed 7.44%, Pay Floating MXN TIEE	19,921	796
7/18/2029	Receive Fixed 7.45%, Pay Floating MXN TIEE	19,137	779
1/2/2020	Receive Fixed 8.41%, Pay Floating Brazil CDI	37,701	1,309
4/19/2047	Receive Floating 6-Month JPY Libor, Pay Fixed 0.79%	44,306	(8,632)
		\$ 186,383	\$ (5,603)

#### 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 August 31, 2019, are as follows:

Currency	Foreign Currency Forward Contracts	Futures Contracts	Swap Contracts	Total
Australian Dollar	\$ 20	\$ -	\$ -	\$ 20
Brazil Real	1,249	-	1,404	2,653
British Pound	116	-	-	116
Canadian Dollar	-	-	50	50
Euro Currency Unit	384	503	-	887
Japanese Yen	(913)	-	(8,632)	(9,545)
Mexican Peso	286	-	1,575	1,861
Russian Ruble	608	-	-	608
Total foreign denominated derivatives	1,750	503	(5,603)	(3,350)
U.S. Dollar	-	(4,823)	(18,820)	(23,643)
Total	\$ 1,750	\$ (4,320)	\$ (24,423)	\$ (26,993)

#### 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:

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.

## Total Return Fixed Income Pool

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

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

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 August 31, 2019. 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	\$ -	\$ 3,334	\$ -	\$ 3,334
Corporate asset backed issues	-	71,546	-	71,546
Corporate CMO	-	48,988	-	48,988
Corporate CMO interest-only	-	271	-	271
Corporate preferred securities	9,889	-	-	9,889
Foreign asset backed issues	-	27,579	-	27,579
Foreign corporate bonds	-	286,642	-	286,642
Foreign currency forward contracts	-	3,275	-	3,275
Foreign equity investments	13	-	-	13
Foreign government bonds	-	287,577	-	287,577
Futures contracts	3,747	-	-	3,747
Money market mutual fund	154,054	-	-	154,054
Municipal bonds	-	34,768	-	34,768
Options contracts purchased	1,078	406	-	1,484
Swaps	-	7,259	-	7,259
U.S. corporate bonds	-	402,280	-	402,280
U.S. Government agency bonds	-	15,322	-	15,322
U.S. Government agency CMO	-	6,894	-	6,894
U.S. Government agency CMO interest-only	-	56,313	-	56,313
U.S. Government agency MBS	-	313,841	-	313,841
U.S. Government agency TBAs	-	29,159	-	29,159
U.S. Treasury bonds	-	231,569	-	231,569
U.S. Treasury inflation protected securities	-	44,751	-	44,751
Total	<u>\$ 168,781</u>	<u>\$ 1,871,774</u>	<u>\$ -</u>	<u>\$ 2,040,555</u>
Commingled debt funds				239,538
Total				<u>\$ 2,280,093</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	\$ -	\$ (1,525)	\$ -	\$ (1,525)
Futures contracts	(8,067)	-	-	(8,067)
Options contracts written	(2,633)	(52)	-	(2,685)
Swaps	-	(31,682)	-	(31,682)
Total	\$ (10,700)	\$ (33,259)	\$ -	\$ (43,959)

The Pool's investments in commingled debt funds were measured at the NAV as of August 31, 2019. These commingled debt funds invest in certain niche sectors, particularly those 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. SCHEDULE OF PARTICIPATION

The following schedule provides the value of participants' accounts in the Pool at August 31, 2019:

Participant	Account Value
Teachers' Retirement System	\$ 674,982
Public Employees' Retirement System	593,457
Workers' Compensation Old Fund	296,701
Revenue Shortfall Reserve Fund - Part B	179,767
West Virginia Retiree Health Benefit Trust Fund	100,037
Revenue Shortfall Reserve Fund	69,632
Public Employees Insurance Agency	60,462
State Police Death, Disability and Retirement Fund	58,278
Coal Workers' Pneumoconiosis Fund	54,911
West Virginia Department of Environmental Protection Agency	54,809
Board of Risk and Insurance Management	37,033
Deputy Sheriff's Retirement System	20,735
State Police Retirement System	18,955
Judges' Retirement System	18,589
Workers' Compensation Self-Insured Employer Security Risk Pool	12,034
West Virginia Prepaid Tuition Trust Fund	10,769
Workers' Compensation Self-Insured Employer Guaranty Risk Pool	7,951
Emergency Medical Services Retirement System	7,638
Wildlife Endowment Fund	5,675
Workers' Compensation Uninsured Employers' Fund	2,672
Municipal Police Officers' and Firefighters' Retirement System	1,089
Municipal Policemen's or Firemen's Pension and Relief Funds	900
West Virginia Department of Environmental Protection Trust	842
Berkeley County Development Authority	562
Total	\$ 2,288,480

**Financial Statements - Unaudited**

**August 31, 2019**





# Core Fixed Income Pool

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## **Financial Statements - Unaudited August 31, 2019**

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# Core Fixed Income Pool

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**Statement of Net Position - Unaudited**  
**August 31, 2019**  
*(Amounts in thousands, except unit data)*

**Assets**

Investments, at fair value:		
Fixed income investments	\$	973,492
Money market mutual fund		26,425
Receivables:		
Interest, dividends, and other investment income		5,525
Investments sold		<u>4,035</u>
	<b>Total assets</b>	<b>1,009,477</b>

**Liabilities**

Cash overdraft		1
Accrued expenses		<u>263</u>
	<b>Total liabilities</b>	<b><u>264</u></b>
	<b>Net position</b>	<b><u>\$ 1,009,213</u></b>

**Unit data**

Units outstanding		83,925,115
Net position, unit price	\$	<u><u>12.03</u></u>

*See accompanying notes to financial statements.*

## Core Fixed Income Pool

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**Statement of Change in Net Position - Unaudited**  
**Period Ended August 31, 2019\***  
*(Amounts in thousands)*

	<u>Month</u>	<u>Year To Date</u>
<b>Investment income</b>		
Net increase in fair value of investments	\$ 25,906	\$ 25,259
Interest, dividends, and other investment income	2,801	5,158
Securities lending income	17	128
	<hr/>	<hr/>
<b>Total investment income</b>	28,724	30,545
 <b>Expenses</b>		
Investment advisor fees	(114)	(204)
Custodian bank fees	(6)	(11)
Management and other allocated fees	(25)	(49)
Securities lending expenses	(15)	(119)
	<hr/>	<hr/>
<b>Total expenses</b>	(160)	(383)
<b>Net investment income</b>	28,564	30,162
 <b>Unit transactions</b>		
Proceeds from sale of units	93,334	93,334
Amount paid for repurchase of units	(20)	(82,491)
	<hr/>	<hr/>
<b>Net increase from unit transactions</b>	93,314	10,843
<b>Increase in net position</b>	121,878	41,005
<b>Net position, beginning of period</b>	887,335	968,208
	<hr/>	<hr/>
<b>Net position, end of period</b>	\$ 1,009,213	\$ 1,009,213
	<hr/> <hr/>	<hr/> <hr/>

*\*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 enhance diversification but not at the expense of total return. The Pool's investment objective is to outperform the Bloomberg Barclays U.S. Aggregate Bond Index over three- to five-year periods, net of external investment management fees. JP Morgan Investment Advisors, Inc. manages this Pool.

### 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. 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 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 August 31, 2019.

### 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).

## Core Fixed Income Pool

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

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

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 August 31, 2019:

Assets	Level 1	Level 2	Level 3	Total
Corporate asset backed issues	\$ -	\$ 117,589	\$ -	\$ 117,589
Corporate CMO	-	32,761	-	32,761
Corporate CMO interest-only	-	291	-	291
Corporate CMO principal-only	-	73	-	73
Foreign asset backed issues	-	2,652	-	2,652
Foreign corporate bonds	-	61,640	-	61,640
Foreign government bonds	-	3,858	-	3,858
Money market mutual fund	26,425	-	-	26,425
Municipal bonds	-	11,018	-	11,018
U.S. corporate bonds	-	185,410	-	185,410
U.S. Government agency bonds	-	4,840	-	4,840
U.S. Government agency CMO	-	109,200	-	109,200
U.S. Government agency CMO interest-only	-	2,130	-	2,130
U.S. Government agency CMO principal-only	-	5,097	-	5,097
U.S. Government agency MBS	-	154,476	-	154,476
U.S. Treasury bonds	-	282,007	-	282,007
U.S. Treasury inflation protected securities	-	450	-	450
Total	<u>\$ 26,425</u>	<u>\$ 973,492</u>	<u>\$ -</u>	<u>\$ 999,917</u>

## Core 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 August 31, 2019:

<u>Participant</u>	<u>Account Value</u>
Teachers' Retirement System	\$ 295,865
Public Employees' Retirement System	260,022
Workers' Compensation Old Fund	129,923
Revenue Shortfall Reserve Fund - Part B	78,847
West Virginia Retiree Health Benefit Trust Fund	43,843
Revenue Shortfall Reserve Fund	30,541
Public Employees Insurance Agency	26,490
State Police Death, Disability and Retirement Fund	25,549
Coal Workers' Pneumoconiosis Fund	24,058
West Virginia Department of Environmental Protection Agency	24,008
Board of Risk and Insurance Management	16,240
West Virginia Prepaid Tuition Trust Fund	11,011
Deputy Sheriff's Retirement System	9,089
State Police Retirement System	8,308
Judges' Retirement System	8,140
Workers' Compensation Self-Insured Employer Security Risk Pool	5,297
Workers' Compensation Self-Insured Employer Guaranty Risk Pool	3,480
Emergency Medical Services Retirement System	3,348
Wildlife Endowment Fund	2,495
Workers' Compensation Uninsured Employers' Fund	1,171
Municipal Police Officers' and Firefighters' Retirement System	478
Municipal Policemen's or Firemen's Pension and Relief Funds	395
West Virginia Department of Environmental Protection Trust	369
Berkeley County Development Authority	246
Total	<u>\$ 1,009,213</u>





**Financial Statements - Unaudited**

**August 31, 2019**



# TIPS Pool

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## **Financial Statements - Unaudited August 31, 2019**

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# TIPS Pool

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**Statement of Net Position - Unaudited**  
**August 31, 2019**  
*(Amounts in thousands, except unit data)*

**Assets**

Investment in commingled bond fund at fair value \$ 408,717

**Liabilities**

Accrued expenses 33

**Net position** \$ 408,684

**Unit data**

Units outstanding 33,236,954

Net position, unit price \$ 12.30

*See accompanying notes to financial statements.*

# TIPS Pool

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**Statement of Changes in Net Position - Unaudited**  
**Period Ended August 31, 2019\***  
*(Amounts in thousands)*

	<u>Month</u>	<u>Year To Date</u>
<b>Investment income</b>		
Net increase in fair value of investments	\$ 9,478	\$ 10,874
<b>Expenses</b>		
Investment advisor fees	(6)	(12)
Management and other allocated fees	<u>(10)</u>	<u>(21)</u>
<b>Total expenses</b>	<u>(16)</u>	<u>(33)</u>
<b>Net investment income</b>	9,462	10,841
<b>Unit transactions</b>		
Proceeds from sale of units	754	754
Amount paid for repurchase of units	<u>(730)</u>	<u>(6,221)</u>
<b>Net increase (decrease) from unit transactions</b>	<u>24</u>	<u>(5,467)</u>
<b>Increase in net position</b>	9,486	5,374
<b>Net position, beginning of period</b>	<u>399,198</u>	<u>403,310</u>
<b>Net position, end of period</b>	<u><u>\$ 408,684</u></u>	<u><u>\$ 408,684</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.*

# 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 was established to offer an additional level of diversification over and above nominal fixed income securities in an attempt to mitigate the risk of inflation. The main objective for the Pool is to generate a return that exceeds the rate of inflation over a market cycle, to provide investment income and stability of principal, and to diversify interest rate exposure. The Pool's performance is measured against the Bloomberg Barclays U.S. Treasury Inflation Protection Index on an annualized basis over rolling three- 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.

# TIPS 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 income taxes is required as of August 31, 2019.

### 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 August 31, 2019:

<u>Assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Commingled bond fund	<u>\$ 408,717</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 408,717</u>

# TIPS 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 August 31, 2019:

<u>Participant</u>	<u>Account Value</u>
Workers' Compensation Old Fund	\$ 113,958
Revenue Shortfall Reserve Fund - Part B	107,517
Revenue Shortfall Reserve Fund	101,359
Public Employees Insurance Agency	34,718
Coal Workers' Pneumoconiosis Fund	24,542
Board of Risk and Insurance Management	16,302
Workers' Compensation Self-Insured Employer Security Risk Pool	5,376
Workers' Compensation Self-Insured Employer Guaranty Risk Pool	3,520
Workers' Compensation Uninsured Employers' Fund	1,392
Total	<u>\$ 408,684</u>



**Financial Statements - Unaudited**

**August 31, 2019**



# Private Markets Pool

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## **Financial Statements - Unaudited August 31, 2019**

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# Private Markets Pool

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**Statement of Net Position - Unaudited**  
**August 31, 2019**  
*(Amounts in thousands, except unit data)*

**Assets**

Investments, at fair value:	
Alternative investments	\$ 4,097,862
Equity investments	222,710
Fixed income investments	14,356
Money market mutual fund	117,345
Cash	6,039
Receivables:	
Investments sold	2,351
Interest, dividends, and other investment income	635
	<hr/>
<b>Total assets</b>	<b>4,461,298</b>

**Liabilities**

Accrued expenses	643
Payable for investments purchased	2,543
	<hr/>
<b>Total liabilities</b>	<b>3,186</b>
	<hr/>
<b>Net position</b>	<b>\$ 4,458,112</b>

**Unit data**

Units outstanding	231,146,972
Net position, unit price	\$ 19.29

*See accompanying notes to financial statements.*

## Private Markets Pool

**Statement of Changes in Net Position - Unaudited**  
**Period Ended August 31, 2019\***  
*(Amounts in thousands)*

	<b>Month</b>	<b>Year To Date</b>
<b>Investment income</b>		
Net decrease in fair value of investments	\$ (4,790)	\$ (6,815)
Income from partnerships and funds	5,585	8,844
Interest, dividends, and other investment income	596	1,092
Securities lending income	2	16
<b>Total investment income</b>	1,393	3,137
<b>Expenses</b>		
Investment advisor fees	(89)	(176)
Custodian bank fees	(6)	(12)
Management and other allocated fees	(114)	(232)
Professional service fees - direct	(111)	(222)
Management fees - external	(255)	(470)
Securities lending expenses	-	1
<b>Total expenses</b>	(575)	(1,111)
<b>Net investment income</b>	818	2,026
<b>Unit transactions</b>		
Proceeds from sale of units	1,398	22,974
Amount paid for repurchase of units	(38,993)	(38,993)
<b>Net decrease from unit transactions</b>	(37,595)	(16,019)
<b>Decrease in net position</b>	(36,777)	(13,993)
<b>Net position, beginning of period</b>	4,494,889	4,472,105
<b>Net position, end of period</b>	\$ 4,458,112	\$ 4,458,112

*\*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 IMB's Private Markets 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 objective of the Pool is to enhance the diversification and stability of the portfolio, while generating a higher level of income than generally available in the public fixed income markets and to provide for long-term growth of participants' assets and risk-reduction through diversification. 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 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 August 31, 2019.
- 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.

# Private Markets Pool

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

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

- 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.

**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.

# Private Markets Pool

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

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

**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.

**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 August 31, 2019.

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 August 31, 2019. 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	\$ 80,011	\$ -	\$ -	\$ 80,011
Foreign common stock	39,180	-	-	39,180
Money market mutual fund	117,345	-	-	117,345
U.S. common stock	88,000	-	-	88,000
U.S. corporate bonds	-	14,356	-	14,356
U.S. preferred stock	15,519	-	-	15,519
Total	<u>\$ 340,055</u>	<u>\$ 14,356</u>	<u>\$ -</u>	<u>\$ 354,411</u>
Opportunistic income funds				570,135
Private equity partnerships				1,800,202
Real estate limited partnerships and funds				1,727,525
Total				<u>\$ 4,452,273</u>

The following table presents information on investments measured at the NAV as of August 31, 2019:

Strategies	Fair Value	Unfunded Commitments	Contractual Termination Date Range (a)	Redemption Frequency	Redemption Notice Period
Opportunistic income:					
Middle Market Loan Funds (b)	\$ 315,726	\$ 50,168	N/A	N/A	N/A
Real Estate Income Funds (c)	254,409	103,079	2021 to 2029	Quarterly	45 days
Private equity partnerships:					
Corporate Finance - Buyout (d)	1,098,115	664,245	2019 to 2034	N/A	N/A
Corporate Finance - Distressed Debt (e)	61,489	14,803	2019 to 2020	N/A	N/A
Corporate Finance - Growth Equity (f)	56,123	59,822	2020 to 2027	N/A	N/A
Corporate Finance - Hard Assets (g)	98,770	55,923	2019 to 2028	N/A	N/A
Corporate Finance - Mezzanine (h)	72,058	49,816	2020 to 2028	N/A	N/A
Corporate Finance - Turnaround (i)	89,816	52,787	2019 to 2026	N/A	N/A
Venture Capital (j)	323,831	96,389	2023 to 2034	N/A	N/A
Real estate limited partnerships and funds:					
Core Funds (k)	985,660	22,850	2020 to 2022	Quarterly	30-60 days
Opportunistic Funds (l)	278,218	232,809	2019 to 2028	N/A	N/A
Value Funds (m)	463,647	458,526	2020 to 2031	N/A	N/A
Total	<u>\$ 4,097,862</u>	<u>\$ 1,861,217</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. SCHEDULE OF PARTICIPATION

The following schedule provides the value of participants' accounts in the Pool at August 31, 2019:

<u>Participant</u>	<u>Account Value</u>
Teachers' Retirement System	\$ 2,024,786
Public Employees' Retirement System	1,787,439
West Virginia Retiree Health Benefit Trust Fund	257,153
State Police Death, Disability and Retirement Fund	178,315
Deputy Sheriff's Retirement System	59,658
Judges' Retirement System	54,901
State Police Retirement System	52,548
Emergency Medical Services Retirement System	21,574
Wildlife Endowment Fund	16,542
Municipal Police Officers' and Firefighters' Retirement System	2,742
Berkeley County Development Authority	1,568
Municipal Policemen's or Firemen's Pension and Relief Funds	886
Total	<u>\$ 4,458,112</u>

**Financial Statements - Unaudited**

**August 31, 2019**



# Hedge Fund Pool

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## **Financial Statements - Unaudited August 31, 2019**

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# Hedge Fund Pool

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## Statement of Net Position - Unaudited

August 31, 2019

(Amounts in thousands, except unit data)

### Assets

Investments, at fair value:		
Hedge funds	\$	2,267,911
Money market mutual fund		6,421
Receivables:		
Investment funds redeemed		2,495
Accrued interest and dividends		<u>158</u>
	<b>Total assets</b>	<b>2,276,985</b>

### Liabilities

Accrued expenses		<u>191</u>
	<b>Net position</b>	<b><u>\$ 2,276,794</u></b>

### Unit data

Units outstanding		148,035,821
Net position, unit price	\$	<u><u>15.38</u></u>

See accompanying notes to financial statements.

## Hedge Fund Pool

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**Statement of Changes in Net Position - Unaudited**  
**Period Ended August 31, 2019\***  
*(Amounts in thousands)*

	<u>Month</u>	<u>Year To Date</u>
<b>Investment income</b>		
Net increase (decrease) in fair value of investments	\$ (6,983)	\$ 12,416
Interest, dividends, and other investment income	<u>9</u>	<u>131</u>
<b>Total investment income</b>	(6,974)	12,547
<b>Expenses</b>		
Professional service fees - direct	(33)	(66)
Management and other allocated fees	<u>(61)</u>	<u>(124)</u>
<b>Total expenses</b>	<u>(94)</u>	<u>(190)</u>
<b>Net investment income (loss)</b>	(7,068)	12,357
<b>Unit transactions</b>		
Amount paid for repurchase of units	<u>(107,023)</u>	<u>(107,596)</u>
<b>Decrease in net assets from unit transactions</b>	<u>(107,023)</u>	<u>(107,596)</u>
<b>Decrease in net position</b>	(114,091)	(95,239)
<b>Net position, beginning of period</b>	<u>2,390,885</u>	<u>2,372,033</u>
<b>Net position, end of period</b>	<u><u>\$ 2,276,794</u></u>	<u><u>\$ 2,276,794</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. The objective of the Pool is to reduce risk through diversification of participants' assets. The primary performance benchmark is the Hedge Funds Research, Inc. Fund of Funds Composite Index plus 100 Basis points. The secondary benchmark is the Citigroup 90-Day Treasury Bill Index plus 400 basis points. 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 August 31, 2019.
- 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.



# Hedge Fund Pool

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

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

**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 August 31, 2019.

### 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 August 31, 2019. 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	\$ 6,421	\$ -	\$ -	\$ 6,421
Hedge funds				2,267,911
Total				\$ 2,274,332

The following table presents information on investments measured at the NAV as of August 31, 2019:

Hedge Fund Strategies	Fair Value	Redemption Frequency	Redemption Notice Period
Directional (a)	\$ 201,610	Monthly, Quarterly	5 to 30 days
Equity long/short (b)	342,076	Monthly, Quarterly	30 to 60 days
Event-driven (c)	100,955	Quarterly, Every 2 years	45 to 180 days
Long-biased (d)	61,146	Monthly	90 days
Multi-strategy (e)	1,271,873	Monthly, Quarterly, Semiannually, Annually	30 to 95 days
Relative-value (f)	290,251	Weekly, Quarterly	5 to 60 days
Total	\$ 2,267,911		

- (a) Directional strategies employ various techniques to forecast the direction of segments of the market and then invest in either long or short positions. 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 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 49 percent of the fair value of the investments in this strategy are subject to maximum withdrawal restrictions.
- (c) Event-driven funds 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 funds 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 43 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 funds 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 38 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 August 31, 2019:

<u>Participant</u>	<u>Account Value</u>
Teachers' Retirement System	\$ 855,372
Public Employees' Retirement System	755,094
Workers' Compensation Old Fund	183,855
West Virginia Retiree Health Benefit Trust Fund	111,124
State Police Death, Disability and Retirement Fund	74,455
Coal Workers' Pneumoconiosis Fund	52,952
Public Employees Insurance Agency	49,596
West Virginia Department of Environmental Protection Agency	45,192
Board of Risk and Insurance Management	34,942
Deputy Sheriff's Retirement System	25,473
Judges' Retirement System	23,302
State Police Retirement System	22,645
Workers' Compensation Self-Insured Employer Security Risk Pool	11,614
Emergency Medical Services Retirement System	9,240
Workers' Compensation Self-Insured Employer Guaranty Risk Pool	7,570
Wildlife Endowment Fund	7,008
Workers' Compensation Uninsured Employers' Fund	2,991
West Virginia Department of Environmental Protection Trust	2,053
Municipal Police Officers' and Firefighters' Retirement System	1,187
Berkeley County Development Authority	679
Municipal Policemen's or Firemen's Pension and Relief Funds	450
Total	<u>\$ 2,276,794</u>