

West Virginia Investment Management Board

2018 AUDITED FINANCIAL STATEMENTS

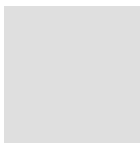
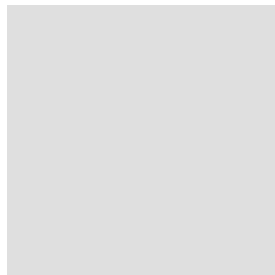
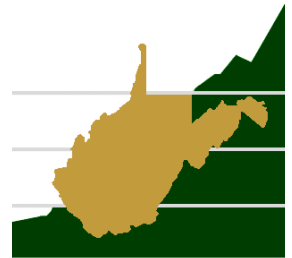


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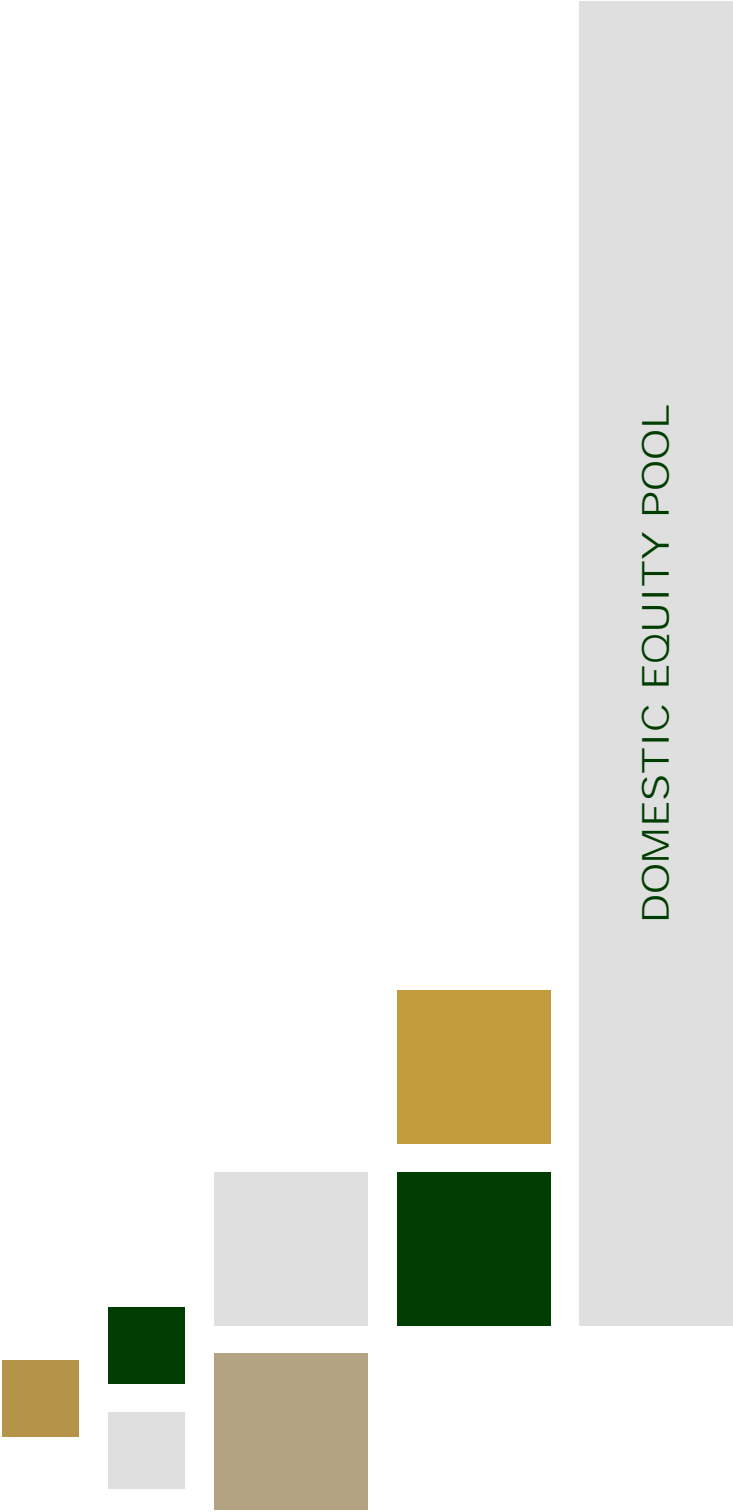
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AUDITED FINANCIAL STATEMENTS
June 30, 2018

A



Domestic Equity Pool

Audited Financial Statements June 30, 2018

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Report of Independent Auditors

To the Board of Trustees
West Virginia Investment Management Board

We have audited the accompanying financial statements of the West Virginia Investment Management Board Domestic Equity Pool, which comprise the statement of net position as of June 30, 2018, and the related statement of changes in net position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the West Virginia Investment Management Board Domestic Equity Pool at June 30, 2018, and the changes in its net position for the year then ended, in conformity with U.S. generally accepted accounting principles.

Basis of Presentation

As discussed in Note 1, the financial statements present only the Domestic Equity Pool and do not purport to, and do not, present fairly the financial position of the West Virginia Investment Management Board, at June 30, 2018, and the changes in its financial position for the year then ended in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.



Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages A-1 through A-2 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Ernst & Young LLP

September 7, 2018

Domestic Equity Pool

Management Discussion and Analysis (Unaudited)

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. The IMB operates on a fiscal year beginning July 1 and ending June 30. To effectuate its purpose the IMB has constructed a series of investment pools in which to invest participating entities monies.

The following information and 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, the information contained in this Management Discussion and Analysis and the following 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 Management Discussion and Analysis information should be considered in conjunction with the information contained in the audited financial statements which follow this section.

On July 1, 2017, the IMB created the Domestic Equity Pool (Pool) to invest in U.S. equities of small-, mid-, and large-cap growth and value stocks. On July 1, 2017, the assets and liabilities of \$3,546,187 from the Large Cap Domestic Equity Pool and \$720,632 from the Non-Large Cap Domestic Equity Pool, were transferred in-kind to the Pool.

Financial Statement Overview

Management's Discussion and Analysis is an introduction to the Pool's basic financial statements. 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. Accordingly, the financial statements presented have been prepared in conformity with the reporting framework prescribed by GASB for external investment pools. The financial statements for the Pool include a Statement of Net Position and a Statement of Changes in Net Position. These financial statements are supported by the Notes to Financial Statements.

Pool Strategy

The Pool's objective is to exceed, net of external investment management fees, the Russell 3000 Stock Index over three- to five-year periods.

Condensed Financial Information and Analysis (in \$000s)

The Statement of Net Position presents the financial position of the Pool as of June 30, 2018, and includes all assets and liabilities of the Pool. The difference between total assets and total liabilities, which is equal to the participants' interest in the Pool's net position, is shown below for the current fiscal year-end date:

Condensed Net Position	June 30, 2018
Investments	\$ 4,688,808
Other assets	61,929
Total assets	4,750,737
Total liabilities	(186,144)
Net position	\$ 4,564,593

Domestic Equity Pool

Management Discussion and Analysis (Unaudited)

The net position of the Pool is impacted by the overall performance of the U.S. equity market. Net position is also impacted by expenses charged to the Pool and the issuance and redemption of Pool units. The increase in the Pool's net position of \$4,564,593 results from net investment income of \$628,805 and a net increase from unit transactions of \$3,935,788. The net increase in unit transactions was comprised of an in-kind transfer of \$4,266,819 and a net decrease from the purchases and sales of units of \$331,031.

The Statement of Changes in Net Position presents the Pool's activity for the year.

Condensed Changes in Net Position	Year Ended June 30, 2018
Investment income	\$ 636,249
Expenses	(7,444)
Net investment income	628,805
Net units issued	3,935,788
Increase in net position	4,564,593
Net position, beginning of year	-
Net position, end of year	\$ 4,564,593

The investment income of the Pool consists primarily of the net increase in fair value of investments and dividends received on equity securities.

The IMB calculates total rates of return using the time-weighted rate of return methodology. The time-weighted method determines the rate of return exclusive of the effects of participant contributions or withdrawals. The return of the Pool (net of fees) for the year ended June 30, 2018 was 15.0 percent.

Select financial highlights for the Pool are as follows:

Per Unit Operating Performance:	Year Ended June 30, 2018
Net position, beginning of year	\$ 25.00
Net increase in net position	3.74
Net position, end of year	\$ 28.74

Supplemental Data (a):	
Ratio of expenses to average net position (b)	0.08%
Portfolio turnover rate	45.76%

- (a) All ratios are for the fiscal year and do not reflect the Pool's proportionate share of expenses of the underlying investee funds.
- (b) Excludes securities lending expenses

Domestic Equity Pool

Statement of Net Position

June 30, 2018

(Amounts in thousands, except unit data)

Assets

Investments, at fair value:		
Equity investments	\$	4,457,808
Money market mutual fund		55,540
Securities lending collateral (Note 6)		175,460
Receivables:		
Investments sold		59,473
Dividends and other investment income		2,456
		<hr/>
Total assets		4,750,737

Liabilities

Accrued expenses		596
Payable for investments purchased		10,088
Payable upon return of securities loaned (Note 6)		175,460
		<hr/>
Total liabilities		186,144
		<hr/>
Net position	\$	<u>4,564,593</u>

Unit data

Units outstanding		158,796,069
Net position, unit price	\$	<u>28.74</u>

See accompanying notes to financial statements.

Domestic Equity Pool

Statement of Changes in Net Position
Year Ended June 30, 2018
(Amounts in thousands)

Investment income

Net increase in fair value of investments	\$ 556,147
Interest, dividends, and other investment income	75,065
Securities lending income	<u>5,037</u>
Total investment income	636,249

Expenses

Investment advisor fees	(2,030)
Custodian bank fees	(152)
Management and other allocated fees	(1,369)
Securities lending expenses	<u>(3,893)</u>
Total expenses	<u>(7,444)</u>
Net investment income	628,805

Unit transactions

In-kind transfers	4,266,819
Proceeds from sale of units	166,104
Amount paid for repurchase of units	<u>(497,135)</u>
Net increase from unit transactions	<u>3,935,788</u>
Increase in net position	4,564,593
Net position, beginning of year	<u>-</u>
Net position, end of year	<u><u>\$ 4,564,593</u></u>

See accompanying notes to financial statements.

Domestic Equity Pool

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.

On July 1, 2017, the IMB created the Domestic Equity Pool (Pool) to invest in U.S. equities of small-, mid-, and large-cap growth and value stocks. On July 1, 2017, the assets and liabilities of \$3,546,187 from the Large Cap Domestic Equity Pool and \$720,632 from the Non-Large Cap Domestic Equity Pool, were transferred in-kind to the Pool.

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

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

The Pool's objective is to exceed, net of external investment management fees, the Russell 3000 Stock Index over three- to five-year periods. Assets are managed by AJO, BlackRock (inception date April 4, 2018), INTECH Investment Management, LLC, State Street Global Advisors (through April 2, 2018), 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 5 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.

Domestic Equity Pool

Notes to Financial Statements

(Amounts in thousands, except share data)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

Income Taxes - The IMB is a public corporation organized under laws of the State of West Virginia and exempt from U.S. federal and state taxation. Accordingly, no provision for income taxes is required as of June 30, 2018.

Domestic Equity Pool

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

NOTE 3. INVESTMENT RISK DISCLOSURES

Credit Risk

The Pool's money market mutual fund investment and investments made with cash collateral for securities loaned are exposed to credit risk. The money market mutual fund has the highest credit rating. Credit risk from securities lending collateral investments are limited by requiring minimum ratings on debt instruments. Long-term debt instruments must be rated A or better by Moody's or Standard & Poor's at the time of purchase. Short-term debt instruments must be rated P-1 by Moody's or A-1 by Standard & Poor's at the time of purchase. The IMB reviews available ratings from Standard & Poor's and Moody's. The following table provides the credit ratings indicative of the greatest degree of risk of the Pool's securities lending collateral investments as of June 30, 2018:

Rating	Fair Value
AAA	\$ 47,082
AA	5,064
A	5,288
BBB	7,219
Not applicable	110,807
Total securities lending collateral	<u>\$ 175,460</u>

Concentration of Credit Risk

The Pool is restricted from investing more than 5 percent of the value of the Pool in any one company. At June 30, 2018, the Pool was in compliance with this restriction and is not exposed to concentration of credit risk.

Custodial Credit Risk

At June 30, 2018, the Pool held no securities that were subject to custodial credit risk. Repurchase agreements, when held, are collateralized to a minimum of 102 percent and the collateral is held in the name of the IMB. Securities on loan are collateralized to a minimum of 102 percent and the collateral is held by the IMB's custodian in the name of the IMB. All remaining securities are held by the IMB's custodian in the name of the IMB.

Interest Rate Risk

The Pool is exposed to interest rate risk from its money market mutual fund investment and from investments made with cash collateral for securities loaned. As of June 30, 2018, the money market mutual fund has a weighted average maturity (WAM) of 39 days. The WAM for securities lending collateral investments is not to exceed 90 days. As of June 30, 2018, the WAM for securities lending collateral was 2 days.

Foreign Currency Risk

The Pool is exposed to no or minimal foreign currency risk.

NOTE 4. DERIVATIVE FINANCIAL INSTRUMENTS

There were no derivative financial instruments recorded in the Statement of Net Position as of June 30, 2018. A gain of \$1,327 on equity index futures is recorded in the Statement of Changes in Net Position as net increase in fair value of investments.

NOTE 5. 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 5. 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 June 30, 2018:

Assets	Level 1	Level 2	Level 3	Total
Commingled equity fund	\$ 1,924,392	\$ -	\$ -	\$ 1,924,392
Common stock	2,533,416	-	-	2,533,416
Money market mutual fund	55,540	-	-	55,540
Securities lending collateral	-	175,460	-	175,460
Total	\$ 4,513,348	\$ 175,460	\$ -	\$ 4,688,808

NOTE 6. SECURITIES LENDING

The following table presents the amounts of various accounts related to securities lending at June 30, 2018:

	Fair Value
Securities on loan	\$ 482,434
Collateral received:	
Cash	\$ 175,460
Non-cash	341,695
Total collateral received	\$ 517,155

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

Domestic Equity Pool

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

NOTE 7. SCHEDULE OF PARTICIPATION

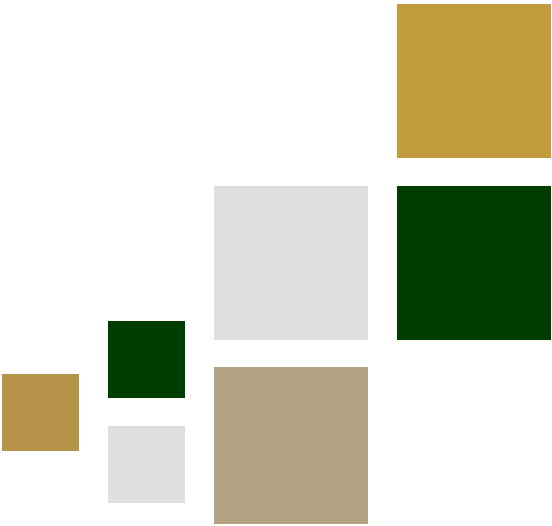
The following schedule provides the value of participants' accounts in the Pool at June 30, 2018:

<u>Participant</u>	<u>Account Value</u>
Teachers' Retirement System	\$ 1,915,121
Public Employees' Retirement System	1,695,975
West Virginia Retiree Health Benefit Trust Fund	228,115
Workers' Compensation Old Fund	176,003
State Police Death, Disability and Retirement Fund	166,355
Deputy Sheriff's Retirement System	55,237
Judges' Retirement System	51,654
Revenue Shortfall Reserve Fund - Part B	49,047
State Police Retirement System	47,530
West Virginia Department of Environmental Protection Agency	38,287
Coal Workers' Pneumoconiosis Fund	36,295
Public Employees Insurance Agency	24,462
Board of Risk and Insurance Management	22,317
Emergency Medical Services Retirement System	19,738
Wildlife Endowment Fund	16,104
Workers' Compensation Self-Insured Employer Security Risk Pool	7,885
Workers' Compensation Self-Insured Employer Guaranty Risk Pool	4,970
West Virginia Department of Environmental Protection Trust	3,089
Berkeley County Development Authority	1,953
Municipal Police Officers' and Firefighters' Retirement System	1,925
Workers' Compensation Uninsured Employers' Fund	1,890
Municipal Policemen's or Firemen's Pension and Relief Funds	641
Total	<u>\$ 4,564,593</u>

AUDITED FINANCIAL STATEMENTS
June 30, 2018

B

INTERNATIONAL QUALIFIED POOL



International Qualified Pool

Audited Financial Statements June 30, 2018

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Independent Auditors' Report

Management's Discussion and Analysis B-1

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Report of Independent Auditors

To the Board of Trustees
West Virginia Investment Management Board

We have audited the accompanying financial statements of the West Virginia Investment Management Board International Qualified Pool, which comprise the statement of net position as of June 30, 2018, and the related statement of changes in net position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the West Virginia Investment Management Board International Qualified Pool at June 30, 2018, and the changes in its net position for the year then ended, in conformity with U.S. generally accepted accounting principles.

Basis of Presentation

As discussed in Note 1, the financial statements present only the International Qualified Pool and do not purport to, and do not, present fairly the financial position of the West Virginia Investment Management Board, at June 30, 2018, and the changes in its financial position for the year then ended in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.



Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages B-1 through B-2 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Ernst & Young LLP

September 7, 2018

International Qualified Pool

Management Discussion and Analysis (Unaudited)

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. The IMB operates on a fiscal year beginning July 1 and ending June 30. To effectuate its purpose the IMB has constructed a series of investment pools in which to invest participating entities monies.

The following information and 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, the information contained in the management discussion and analysis and the following 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 management discussion and analysis information should be considered in conjunction with the information contained in the audited financial statements which follow this section.

Financial Statement Overview

Management's Discussion and Analysis is an introduction to the Pool's basic financial statements. 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. Accordingly, the financial statements presented have been prepared in conformity with the reporting framework prescribed by GASB for external investment pools. The financial statements for the Pool include a Statement of Net Position and a Statement of Changes in Net Position. These financial statements are supported by the Notes to Financial Statements.

Pool Strategy

The Pool was established to gain exposure to the international equity market with the objective to produce investment returns that exceed the Morgan Stanley Capital International's Europe Australasia Far East Index by 200 basis points on an annual 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.

Condensed Financial Information and Analysis (in \$000s)

The Statement of Net Position presents the financial position of the Pool as of June 30, 2018, and includes all assets and liabilities of the Pool. The difference between total assets and total liabilities, which is equal to the participants' interest in the Pool's net position, is shown below for the current and prior fiscal year-end dates:

Condensed Net Position	June 30, 2018	June 30, 2017
Investments	\$ 1,330,940	\$ 1,453,466
Total liabilities	(56)	(65)
Net position	<u>\$ 1,330,884</u>	<u>\$ 1,453,401</u>

International Qualified Pool

Management Discussion and Analysis (Unaudited)

Yearly variances in the net position of the Pool are impacted by the overall performance of the international equity market. Net position is also impacted by expenses charged to the Pool and the issuance and redemption of Pool units. The decrease in the Pool's net position of \$122,517 results from net investment income of \$102,040 and a net decrease from unit transactions of \$224,557.

The Statement of Changes in Net Position presents the Pool's activity for the year.

Condensed Changes in Net Position	Years Ended	
	June 30, 2018	June 30, 2017
Investment income	\$ 109,816	\$ 302,402
Expenses	(7,776)	(7,398)
Net investment income	102,040	295,004
Net units redeemed	(224,557)	(49,580)
Increase (decrease) in net position	(122,517)	245,424
Net position, beginning of year	1,453,401	1,207,977
Net position, end of year	\$ 1,330,884	\$ 1,453,401

The investment income of the Pool is from the net increase in fair value of investments.

The IMB calculates total rates of return using the time-weighted rate of return methodology. The time-weighted method determines the rate of return exclusive of the effects of participant contributions or withdrawals. The return of the Pool (net of fees) for the year ended June 30, 2018 was 6.9 percent, down from 24.6 percent for the year ended June 30, 2017.

Select financial highlights for the Pool are as follows:

Per Unit Operating Performance:	Years Ended	
	June 30, 2018	June 30, 2017
Net position, beginning of year	\$ 71.78	\$ 57.61
Net increase in net position	4.89	14.17
Net position, end of year	\$ 76.67	\$ 71.78

Supplemental Data (a):		
Ratio of expenses to average net position	0.54%	0.55%
Portfolio turnover rate	0.00%	0.00%

- (a) All ratios are for the fiscal year and do not reflect the Pool's proportionate share of expenses of the underlying investee fund.

International Qualified Pool

Statement of Net Position

June 30, 2018

(Amounts in thousands, except unit data)

Assets

Investment in commingled equity fund at fair value	\$ 1,330,940
--	--------------

Liabilities

Accrued expenses	<u>56</u>
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Net position	<u><u>\$ 1,330,884</u></u>
---------------------	----------------------------

Unit data

Units outstanding	17,357,644
Net position, unit price	<u><u>\$ 76.67</u></u>

See accompanying notes to financial statements.

International Qualified Pool

Statement of Changes in Net Position
Year Ended June 30, 2018
(Amounts in thousands)

Investment income

Net increase in fair value of investments \$ 109,816

Expenses

Investment advisor fees (7,341)

Management and other allocated fees (435)

Total expenses (7,776)

Net investment income 102,040

Unit transactions

Proceeds from sale of units 16,530

Amount paid for repurchase of units (241,087)

Net decrease from unit transactions (224,557)

Decrease in net position (122,517)

Net position, beginning of year 1,453,401

Net position, end of year \$ 1,330,884

See accompanying notes to financial statements.

International Qualified Pool

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 4 for further discussion and presentation of the reporting requirements under GASB Statement No. 72.

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

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

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

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

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

International Qualified Pool

Notes to Financial Statements

(Amounts in thousands, except share data)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Income Taxes - The IMB is a public corporation organized under laws of the State of West Virginia and exempt from U.S. federal and state taxation. Accordingly, no provision for income taxes is required as of June 30, 2018.

NOTE 3. INVESTMENT RISK DISCLOSURES

The Pool invests in a collective trust fund that invests in equities denominated in foreign currencies. The value of this investment at June 30, 2018, was \$1,330,940. This investment, although denominated in U.S. dollars, is exposed to foreign currency risk through the underlying investments. The Pool is not exposed to credit risk, interest rate risk, custodial credit risk, or concentration of credit risk.

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.

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

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

NOTE 5. SCHEDULE OF PARTICIPATION

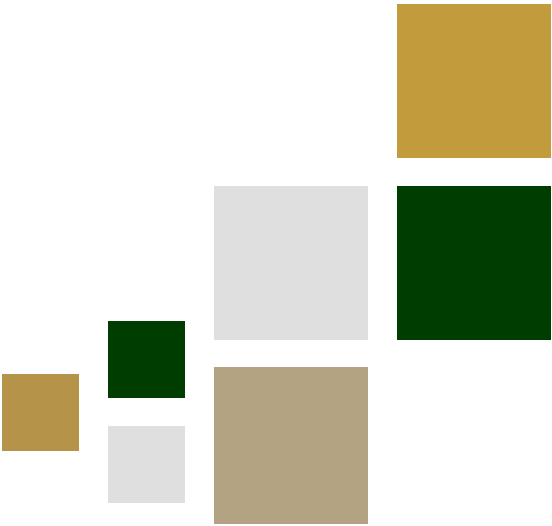
The following schedule provides the value of participants' accounts in the Pool at June 30, 2018:

<u>Participant</u>	<u>Account Value</u>
Teachers' Retirement System	\$ 642,773
Public Employees' Retirement System	570,269
State Police Death, Disability and Retirement Fund	58,103
Deputy Sheriff's Retirement System	18,732
Judges' Retirement System	17,640
State Police Retirement System	15,854
Emergency Medical Services Retirement System	6,658
Municipal Police Officers' and Firefighters' Retirement System	634
Municipal Policemen's or Firemen's Pension and Relief Funds	221
Total	<u>\$ 1,330,884</u>

AUDITED FINANCIAL STATEMENTS
June 30, 2018



INTERNATIONAL NONQUALIFIED POOL



International Nonqualified Pool

Audited Financial Statements June 30, 2018

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Report of Independent Auditors

To the Board of Trustees
West Virginia Investment Management Board

We have audited the accompanying financial statements of the West Virginia Investment Management Board International Nonqualified Pool, which comprise the statement of net position as of June 30, 2018, and the related statement of changes in net position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the West Virginia Investment Management Board International Nonqualified Pool at June 30, 2018, and the changes in its net position for the year then ended, in conformity with U.S. generally accepted accounting principles.

Basis of Presentation

As discussed in Note 1, the financial statements present only the International Nonqualified Pool and do not purport to, and do not, present fairly the financial position of the West Virginia Investment Management Board, at June 30, 2018, and the changes in its financial position for the year then ended in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.



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Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages C-1 through C-2 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Ernst & Young LLP

September 7, 2018

International Nonqualified Pool

Management Discussion and Analysis (Unaudited)

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. The IMB operates on a fiscal year beginning July 1 and ending June 30. To effectuate its purpose the IMB has constructed a series of investment pools in which to invest participating entities monies.

The following information and 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, the information contained in the Management Discussion and Analysis and the following 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 Management Discussion and Analysis information should be considered in conjunction with the information contained in the audited financial statements which follow this section.

Financial Statement Overview

Management's Discussion and Analysis is an introduction to the Pool's basic financial statements. 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. Accordingly, the financial statements presented have been prepared in conformity with the reporting framework prescribed by GASB for external investment pools. The financial statements for the Pool include a Statement of Net Position and a Statement of Changes in Net Position. These financial statements are supported by the Notes to Financial Statements.

Pool Strategy

The Pool was established to gain exposure to the international equity market with the objective to produce investment returns that exceed the Morgan Stanley Capital International's Europe Australasia Far East Index by 200 basis points on an annual basis over three- to five-year periods, net of external investment management fees. This Pool exists for participants who are not "qualified participants" (as defined by the *Internal Revenue Code*).

Condensed Financial Information and Analysis (in \$000s)

The Statement of Net Position presents the financial position of the Pool as of June 30, 2018, and includes all assets and liabilities of the Pool. The difference between total assets and total liabilities, which is equal to the participants' interest in the Pool's net position, is shown below for the current and prior fiscal year-end dates:

Condensed Net Position	June 30, 2018	June 30, 2017
Investments	\$ 215,417	\$ 201,808
Total liabilities	(9)	(9)
Net position	<u>\$ 215,408</u>	<u>\$ 201,799</u>

International Nonqualified Pool

Management Discussion and Analysis (Unaudited)

Yearly variances in the net position of the Pool are impacted by the overall performance of the international equity market. Net position is also impacted by expenses charged to the Pool and the issuance and redemption of Pool units. The increase in the Pool's net position of \$13,609 results from net investment income of \$13,542 and a net increase from unit transactions of \$67.

The Statement of Changes in Net Position presents the Pool's activity for the year.

Condensed Changes in Net Position	Years Ended	
	June 30, 2018	June 30, 2017
Investment income	\$ 14,886	\$ 36,492
Expenses	(1,344)	(1,048)
Net investment income	13,542	35,444
Net units issued	67	25,049
Increase in net position	13,609	60,493
Net position, beginning of year	201,799	141,306
Net position, end of year	\$ 215,408	\$ 201,799

The investment income of the Pool is from the net increase in fair value of investments.

The IMB calculates total rates of return using the time-weighted rate of return methodology. The time-weighted method determines the rate of return exclusive of the effects of participant contributions or withdrawals. The return of the Pool (net of fees) for the year ended June 30, 2018 was 6.7 percent, down from 24.3 percent for the year ended June 30, 2017.

Select financial highlights for the Pool are as follows:

Per Unit Operating Performance:	Years Ended	
	June 30, 2018	June 30, 2017
Net position, beginning of year	\$ 65.86	\$ 52.97
Net increase in net position	4.42	12.89
Net position, end of year	\$ 70.28	\$ 65.86

Supplemental Data (a):		
Ratio of expenses to average net position	0.61%	0.65%
Portfolio turnover rate	0.00%	0.61%

- (a) All ratios are for the fiscal year and do not reflect the Pool's proportionate share of expenses of the underlying investee fund.

International Nonqualified Pool

Statement of Net Position

June 30, 2018

(Amounts in thousands, except unit data)

Assets

Investment in commingled equity fund at fair value \$ 215,417

Liabilities

Accrued expenses 9

Net position \$ 215,408

Unit data

Units outstanding 3,065,138

Net position, unit price \$ 70.28

See accompanying notes to financial statements.

International Nonqualified Pool

Statement of Changes in Net Position Year Ended June 30, 2018 *(Amounts in thousands)*

Investment income

Net increase in fair value of investments	\$	14,886
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Expenses

Investment advisor fees		(1,278)
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Management and other allocated fees		<u>(66)</u>
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Total expenses		<u>(1,344)</u>
-----------------------	--	----------------

Net investment income		13,542
------------------------------	--	--------

Unit transactions

Proceeds from sale of units		13,988
-----------------------------	--	--------

Amount paid for repurchase of units		<u>(13,921)</u>
-------------------------------------	--	-----------------

Net increase from unit transactions		<u>67</u>
--	--	-----------

Increase in net position		13,609
---------------------------------	--	--------

Net position, beginning of year		<u>201,799</u>
--	--	----------------

Net position, end of year	\$	<u><u>215,408</u></u>
----------------------------------	----	-----------------------

See accompanying notes to financial statements.

International Nonqualified Pool

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 4 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

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 June 30, 2018.

NOTE 3. INVESTMENT RISK DISCLOSURES

The Pool invests in a collective trust fund that invests in equities denominated in foreign currencies. The value of this investment at June 30, 2018, was \$215,417. This investment, although denominated in U.S. dollars, is exposed to foreign currency risk through the underlying investments. The Pool is not exposed to credit risk, interest rate risk, custodial credit risk, or concentration of credit risk.

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.

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

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

NOTE 5. SCHEDULE OF PARTICIPATION

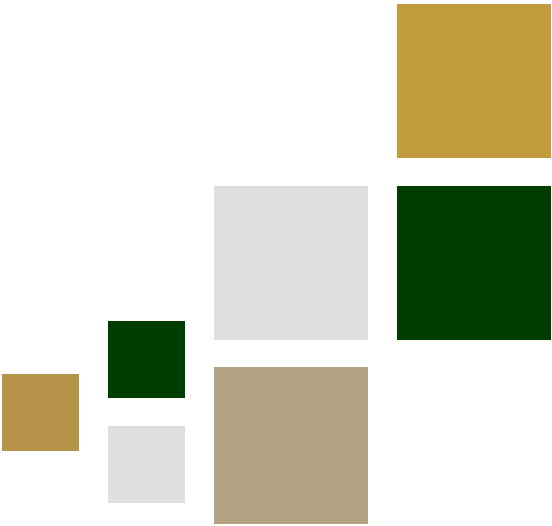
The following schedule provides the value of participants' accounts in the Pool at June 30, 2018:

<u>Participant</u>	<u>Account Value</u>
West Virginia Retiree Health Benefit Trust Fund	\$ 76,159
Workers' Compensation Old Fund	66,991
Revenue Shortfall Reserve Fund - Part B	17,181
Coal Workers' Pneumoconiosis Fund	13,361
West Virginia Department of Environmental Protection Agency	12,836
Public Employees Insurance Agency	8,244
Board of Risk and Insurance Management	7,761
Wildlife Endowment Fund	5,825
Workers' Compensation Self-Insured Employer Security Risk Pool	2,891
Workers' Compensation Self-Insured Employer Guaranty Risk Pool	1,801
West Virginia Department of Environmental Protection Trust	1,048
Berkeley County Development Authority	671
Workers' Compensation Uninsured Employers' Fund	639
Total	<u>\$ 215,408</u>

AUDITED FINANCIAL STATEMENTS
June 30, 2018

D

INTERNATIONAL EQUITY POOL



International Equity Pool

Audited Financial Statements June 30, 2018

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Independent Auditors' Report

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Report of Independent Auditors

To the Board of Trustees
West Virginia Investment Management Board

We have audited the accompanying financial statements of the West Virginia Investment Management Board International Equity Pool, which comprise the statement of net position as of June 30, 2018, and the related statement of changes in net position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the West Virginia Investment Management Board International Equity Pool at June 30, 2018, and the changes in its net position for the year then ended, in conformity with U.S. generally accepted accounting principles.

Basis of Presentation

As discussed in Note 1, the financial statements present only the International Equity Pool and do not purport to, and do not, present fairly the financial position of the West Virginia Investment Management Board, at June 30, 2018, and the changes in its financial position for the year then ended in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.



Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages D-1 through D-2 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Ernst & Young LLP

September 7, 2018

International Equity Pool

Management Discussion and Analysis (Unaudited)

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. The IMB operates on a fiscal year beginning July 1 and ending June 30. To effectuate its purpose the IMB has constructed a series of investment pools in which to invest participating entities monies.

The following information and 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, the information contained in the Management Discussion and Analysis and the following 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 Management Discussion and Analysis information should be considered in conjunction with the information contained in the audited financial statements which follow this section.

Financial Statement Overview

Management's Discussion and Analysis is an introduction to the Pool's basic financial statements. 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. Accordingly, the financial statements presented have been prepared in conformity with the reporting framework prescribed by GASB for external investment pools. The financial statements for the Pool include a Statement of Net Position and a Statement of Changes in Net Position. These financial statements are supported by the Notes to Financial Statements.

Pool Strategy

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

Condensed Financial Information and Analysis (in \$000s)

The Statement of Net Position presents the financial position of the Pool as of June 30, 2018, and includes all assets and liabilities of the Pool. The difference between total assets and total liabilities, which is equal to the participants' interest in the Pool's net position, is shown below for the current and prior fiscal year-end dates:

Condensed Net Position	June 30, 2018	June 30, 2017
Investments	\$ 3,042,760	\$ 3,175,097
Other assets	249,262	93,482
Total assets	3,292,022	3,268,579
Total liabilities	(305,194)	(119,086)
Net position	<u>\$ 2,986,828</u>	<u>\$ 3,149,493</u>

International Equity Pool

Management Discussion and Analysis (Unaudited)

Yearly variances in the net position of the Pool are impacted by the overall performance of the international equity market. Net position is also impacted by expenses charged to the Pool and the issuance and redemption of Pool units. The decrease in the Pool's net position of \$162,665 results from net investment income of \$216,318 and a net decrease from unit transactions of \$378,983.

The Statement of Changes in Net Position presents the Pool's activity for the year.

Condensed Changes in Net Position	Years Ended	
	June 30, 2018	June 30, 2017
Investment income	\$ 238,827	\$ 739,473
Expenses	(22,509)	(21,045)
Net investment income	216,318	718,428
Net units redeemed	(378,983)	(425,481)
Increase (decrease) in net position	(162,665)	292,947
Net position, beginning of year	3,149,493	2,856,546
Net position, end of year	\$ 2,986,828	\$ 3,149,493

The investment income of the Pool consists primarily of the net increase in fair value of investments and dividends received on equity securities.

The IMB calculates total rates of return using the time-weighted rate of return methodology. The time-weighted method determines the rate of return exclusive of the effects of participant contributions or withdrawals. The return of the Pool (net of fees) for the year ended June 30, 2018 was 6.6%, down from 26.2% for the year ended June 30, 2017.

Select financial highlights for the Pool are as follows:

Per Unit Operating Performance:	Years Ended	
	June 30, 2018	June 30, 2017
Net position, beginning of year	\$ 29.63	\$ 23.48
Net increase in net position	1.95	6.15
Net position, end of year	\$ 31.58	\$ 29.63
Supplemental Data (a):		
Ratio of expenses to average net position (b)	0.67%	0.68%
Portfolio turnover rate	43.64%	38.84%

(a) All ratios are for the fiscal year

(b) Excludes securities lending expenses

International Equity Pool

Statement of Net Position

June 30, 2018

(Amounts in thousands, except unit data)

Assets

Investments, at fair value:	
Equity investments	\$ 2,940,328
Money market mutual fund	26,558
Securities lending collateral (Note 5)	75,874
Cash	39,429
Receivables:	
Investments sold	192,601
Dividends and other investment income	17,232
	<hr/>
Total assets	3,292,022

Liabilities

Accrued expenses	4,854
Accrued capital gains taxes	1,231
Payable for investments purchased	223,211
Payable upon return of securities loaned (Note 5)	75,874
Other	24
	<hr/>
Total liabilities	305,194
	<hr/>
Net position	\$ 2,986,828

Unit data

Units outstanding	94,582,966
Net position, unit price	<hr/> <hr/> \$ 31.58

See accompanying notes to financial statements.

International Equity Pool

Statement of Changes in Net Position Year Ended June 30, 2018 *(Amounts in thousands)*

Investment income

Net increase in fair value of investments	\$	141,111
Interest, dividends, and other investment income		94,880
Securities lending income		<u>2,836</u>
Total investment income		238,827

Expenses

Investment advisor fees		(19,086)
Custodian bank fees		(1,710)
Management and other allocated fees		(990)
Securities lending expenses		<u>(723)</u>
Total expenses		<u>(22,509)</u>
Net investment income		216,318

Unit transactions

Proceeds from sale of units		137,141
Amount paid for repurchase of units		<u>(516,124)</u>
Net decrease from unit transactions		<u>(378,983)</u>
Decrease in net position		(162,665)
Net position, beginning of year		<u>3,149,493</u>
Net position, end of year	\$	<u><u>2,986,828</u></u>

See accompanying notes to financial statements.

International Equity Pool

Notes to Financial Statements

(Amounts in thousands, except share data)

NOTE 1. DESCRIPTION OF THE ENTITY

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

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

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

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

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

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Investment Valuation - The IMB reports its investments at fair value in accordance with GASB Statement No. 72. Refer to Note 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:

- 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

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 June 30, 2018.

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

NOTE 3. INVESTMENT RISK DISCLOSURES

Credit Risk

The Pool's money market mutual fund investment and investments made with cash collateral for securities loaned are exposed to credit risk. The money market mutual fund has the highest credit rating. Credit risk from securities lending collateral investments are limited by requiring minimum ratings on debt instruments. Long-term debt instruments must be rated A or better by Moody's or Standard & Poor's at the time of purchase. Short-term debt instruments must be rated P-1 by Moody's or A-1 by Standard & Poor's at the time of purchase. The IMB reviews available ratings from Standard & Poor's and Moody's. The following table provides the credit ratings indicative of the greatest degree of risk of the Pool's securities lending collateral investments as of June 30, 2018:

<u>Rating</u>	<u>Fair Value</u>
AAA	\$ 20,359
AA	2,190
A	2,287
BBB	3,122
Not applicable	47,916
Total securities lending collateral	<u>\$ 75,874</u>

Concentration of Credit Risk

The Pool is restricted from investing more than 5 percent of the value of the Pool in any one company. At June 30, 2018, the Pool was in compliance with this restriction and is not exposed to concentration of credit risk.

Custodial Credit Risk

At June 30, 2018, the Pool held no securities that were subject to custodial credit risk. Repurchase agreements, when held, are collateralized to a minimum of 102 percent and the collateral is held in the name of the IMB. Securities on loan are collateralized to a minimum of 102 percent and the collateral is held by the IMB's custodian in the name of the IMB. All remaining securities are held by the IMB's custodian in the name of the IMB.

Interest Rate Risk

The Pool is exposed to interest rate risk from its money market mutual fund investment and certain investments made with cash collateral for securities loaned. As of June 30, 2018, the money market mutual fund has a weighted average maturity (WAM) of 39 days. The WAM for securities lending collateral investments is not to exceed 90 days. As of June 30, 2018, the WAM for securities lending collateral was 2 days.

International Equity Pool

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

NOTE 3. INVESTMENT RISK DISCLOSURES (continued)

Foreign Currency Risk

The Pool has equity investments, cash, and foreign currency spot contracts that are exposed to foreign currency risks. The amounts at fair value (in U.S. dollars) of equity investments, cash, and foreign currency spot contracts as of June 30, 2018 are as follows:

Currency	Equity Investments	Cash	Foreign Currency Spot Contracts	Total
Australian Dollar	\$ 90,582	\$ 1	\$ -	\$ 90,583
Brazil Real	98,891	494	(20)	99,365
British Pound	275,749	493	115	276,357
Canadian Dollar	110,687	226	-	110,913
Chilean Peso	4,661	-	-	4,661
Czech Koruna	3,051	-	-	3,051
Danish Krone	19,525	9	1	19,535
Egyptian Pound	1,733	-	-	1,733
Emirati Dirham	-	10	-	10
Euro Currency Unit	434,429	4,008	80	438,517
Hong Kong Dollar	356,625	5,338	(1)	361,962
Hungarian Forint	6,907	28	-	6,935
Indian Rupee	79,014	12,993	-	92,007
Indonesian Rupiah	15,318	93	-	15,411
Israeli Shekel	12,605	27	-	12,632
Japanese Yen	402,074	5,651	(40)	407,685
Malaysian Ringgit	28,119	1,284	(2)	29,401
Mexican Peso	47,526	140	-	47,666
New Taiwan Dollar	100,384	855	-	101,239
New Zealand Dollar	357	5	-	362
Norwegian Krone	25,384	307	(4)	25,687
Pakistan Rupee	2,949	-	-	2,949
Philippine Peso	6,761	5,082	-	11,843
Polish Zloty	4,150	73	(34)	4,189
Qatari Riyal	1,249	40	-	1,289
Singapore Dollar	15,955	207	2	16,164
South African Rand	46,338	10	(55)	46,293
South Korean Won	209,540	1,846	(1)	211,385
Swedish Krona	39,199	129	1	39,329
Swiss Franc	85,297	62	6	85,365
Thailand Baht	53,440	2	(9)	53,433
Turkish Lira	24,459	16	(6)	24,469
Total	\$ 2,602,958	\$ 39,429	\$ 33	\$ 2,642,420
U.S. Dollar	337,370	-	-	337,370
Total	\$ 2,940,328	\$ 39,429	\$ 33	\$ 2,979,790

International Equity Pool

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

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.

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 June 30, 2018:

Assets	Level 1	Level 2	Level 3	Total
Common stock	\$ 2,875,697	\$ -	\$ -	\$ 2,875,697
Money market mutual fund	26,558	-	-	26,558
Preferred stock	61,720	-	-	61,720
Rights	2,911	-	-	2,911
Securities lending collateral	-	75,874	-	75,874
Total	\$ 2,966,886	\$ 75,874	\$ -	\$ 3,042,760

NOTE 5. SECURITIES LENDING

The following table presents the amounts of various accounts related to securities lending at June 30, 2018:

	Fair Value
Securities on loan	\$ 394,944
Collateral received:	
Cash	\$ 75,874
Non-cash	364,154
Total collateral received	\$ 440,028

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

International Equity Pool

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

NOTE 6. SCHEDULE OF PARTICIPATION

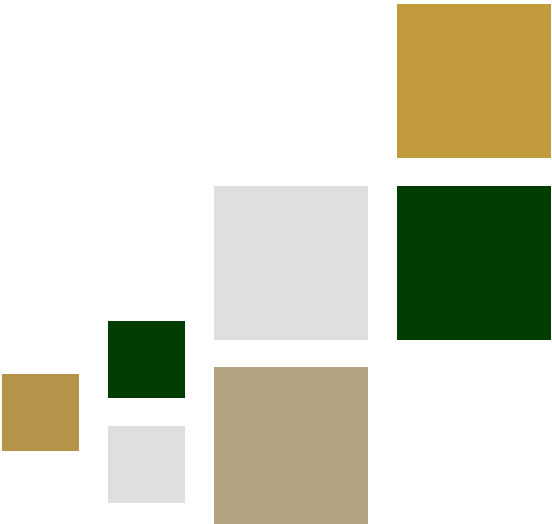
The following schedule provides the value of participants' accounts in the Pool at June 30, 2018:

<u>Participant</u>	<u>Account Value</u>
Teachers' Retirement System	\$ 1,260,306
Public Employees' Retirement System	1,113,988
West Virginia Retiree Health Benefit Trust Fund	149,920
State Police Death, Disability and Retirement Fund	107,614
Workers' Compensation Old Fund	107,375
Deputy Sheriff's Retirement System	36,109
Judges' Retirement System	33,487
State Police Retirement System	31,312
Revenue Shortfall Reserve Fund - Part B	31,305
West Virginia Department of Environmental Protection Agency	25,044
Coal Workers' Pneumoconiosis Fund	22,553
Public Employees Insurance Agency	16,061
Board of Risk and Insurance Management	14,337
Emergency Medical Services Retirement System	13,050
Wildlife Endowment Fund	10,105
Workers' Compensation Self-Insured Employer Security Risk Pool	4,920
Workers' Compensation Self-Insured Employer Guaranty Risk Pool	3,127
West Virginia Department of Environmental Protection Trust	2,017
Municipal Police Officers' and Firefighters' Retirement System	1,281
Berkeley County Development Authority	1,267
Workers' Compensation Uninsured Employers' Fund	1,236
Municipal Policemen's or Firemen's Pension and Relief Funds	414
Total	<u>\$ 2,986,828</u>

AUDITED FINANCIAL STATEMENTS
June 30, 2018

E

SHORT-TERM FIXED INCOME POOL



Short-Term Fixed Income Pool

Audited Financial Statements June 30, 2018

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Report of Independent Auditors

To the Board of Trustees
West Virginia Investment Management Board

We have audited the accompanying financial statements of the West Virginia Investment Management Board Short-Term Fixed Income Pool, which comprise the statement of net position as of June 30, 2018, and the related statement of changes in net position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the West Virginia Investment Management Board Short-Term Fixed Income Pool at June 30, 2018, and the changes in its net position for the year then ended, in conformity with U.S. generally accepted accounting principles.

Basis of Presentation

As discussed in Note 1, the financial statements present only the Short-Term Fixed Income Pool and do not purport to, and do not, present fairly the financial position of the West Virginia Investment Management Board, at June 30, 2018, and the changes in its financial position for the year then ended in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.



Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages E-1 through E-2 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Ernst + Young LLP

September 7, 2018

Short-Term Fixed Income Pool

Management Discussion and Analysis (Unaudited)

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. The IMB operates on a fiscal year beginning July 1 and ending June 30. To effectuate its purpose the IMB has constructed a series of investment pools in which to invest participating entities monies.

The following information and 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, the information contained in the Management Discussion and Analysis and the following 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 Management Discussion and Analysis information should be considered in conjunction with the information contained in the audited financial statements which follow this section.

Financial Statement Overview

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Pool Strategy

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.

Condensed Financial Information and Analysis (in \$000s)

The Statement of Net Position presents the financial position of the Pool as of June 30, 2018, and includes all assets and liabilities of the Pool. The difference between total assets and total liabilities, which is equal to the participants' interest in the Pool's net position, is shown below for the current and prior fiscal year-end dates:

Condensed Net Position	June 30, 2018	June 30, 2017
Investments	\$ 218,291	\$ 218,063
Other assets	8	3
Total assets	218,299	218,066
Total liabilities	(30)	(31)
Net position	<u>\$ 218,269</u>	<u>\$ 218,035</u>

Short-Term Fixed Income Pool

Management Discussion and Analysis (Unaudited)

Yearly variances in the net position of the Pool are impacted by the interest rates on short-term fixed income securities. Net position is also impacted by expenses charged to the Pool and the issuance and redemption of Pool units. The increase in the Pool's net position of \$234 results from net investment income of \$2,106, a decrease from distributions to unitholders of \$2,109, and a net increase from unit transactions of \$237.

The Statement of Changes in Net Position presents the Pool's activity for the year.

Condensed Changes in Net Position	Years Ended	
	June 30, 2018	June 30, 2017
Investment income	\$ 2,255	\$ 926
Expenses	(149)	(154)
Net investment income	2,106	772
Distributions to unitholders	(2,109)	(855)
Net units issued (redeemed)	237	(52,847)
Increase (decrease) in net position	234	(52,930)
Net position, beginning of year	218,035	270,965
Net position, end of year	<u>\$ 218,269</u>	<u>\$ 218,035</u>

The investment income of the Pool is primarily from interest received on fixed income securities.

The IMB calculates total rates of return using the time-weighted rate of return methodology. The time-weighted method determines the rate of return exclusive of the effects of participant contributions or withdrawals. The return of the Pool (net of fees) for the year ended June 30, 2018 was 1.3 percent, up from 0.5 percent for the year ended June 30, 2017.

Select financial highlights for the Pool are as follows:

Per Unit Operating Performance:	Years Ended	
	June 30, 2018	June 30, 2017
Net position, beginning of year	\$ 1.00	\$ 1.00
Net increase in net position	0.01	- (a)
Distributions to unitholders (b)	(0.01)	- (a)
Net position, end of year	<u>\$ 1.00</u>	<u>\$ 1.00</u>
Supplemental Data:		
Ratio of expenses to average net position (c)	0.09%	0.09%
Weighted average maturity (WAM)	43 days	20 days
Maximum WAM per IMB Board guidelines	60 days	60 days
Money market yield (d)	1.85%	0.82%

- (a) Per share amount is less than \$0.01, amount is rounded for reporting purposes
- (b) Calculation based on the average shares outstanding
- (c) Ratio is for the fiscal year
- (d) The money market yield represents the rate of income, net of expenses, earned over the past month divided by the average shares outstanding and is not intended to indicate future performance. The return is annualized over a 365-day year, assuming no reinvestment of earnings.

Short-Term Fixed Income Pool

Statement of Net Position

June 30, 2018

(Amounts in thousands, except unit data)

Assets

Investments, at amortized cost:		
U.S. Treasury and government agency bonds	\$	156,120
Commercial paper		22,171
Repurchase agreement		40,000
Cash		1
Accrued interest receivable		7
		<hr/>
	Total assets	218,299

Liabilities

Accrued expenses		30
		<hr/>
	Net position	<u><u>\$ 218,269</u></u>

Unit data

Units outstanding		218,269,407
Net position, unit price	\$	<u><u>1.00</u></u>

See accompanying notes to financial statements.

Short-Term Fixed Income Pool

Statement of Changes in Net Position
Year Ended June 30, 2018
(Amounts in thousands)

Investment income	\$ 2,255
Expenses	
Investment advisor fees	(84)
Custodian bank fees	(11)
Management and other allocated fees	<u>(54)</u>
Total expenses	<u>(149)</u>
Net investment income	2,106
Distributions to unitholders	(2,109)
Unit transactions	
Proceeds from sale of units	1,714,535
Reinvestment of distributions	2,109
Amount paid for repurchase of units	<u>(1,716,407)</u>
Net increase from unit transactions	<u>237</u>
Increase in net position	234
Net position, beginning of year	<u>218,035</u>
Net position, end of year	<u><u>\$ 218,269</u></u>

See accompanying notes to financial statements.

Short-Term Fixed Income Pool

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

NOTE 1. DESCRIPTION OF THE ENTITY

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

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

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

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

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

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Investment Valuation - The IMB reports its investments at amortized cost provided such amounts approximate fair value in accordance with GASB Statements No. 72 and No. 79. The basic premise underlying the use of the amortized cost method of valuation is that high-quality, short-term debt securities held until maturity will eventually return to their amortized cost value, regardless of any current disparity between the amortized cost value and market value, and would not ordinarily be expected to fluctuate significantly in value. The Pool values its securities at amortized cost so long as the deviation between the amortized cost and current market value remains minimal and results in the computation of a share price that represents fairly the stable net position value per share of \$1. Refer to Note 4 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 June 30, 2018.

NOTE 3. INVESTMENT RISK DISCLOSURES

Credit Risk

The IMB limits the exposure to credit risk in the Pool by requiring all corporate bonds to be rated AA or higher. Commercial paper must be rated A-1 by Standard & Poor's and P-1 by Moody's. Additionally, the Pool must have at least 15 percent of its assets in United States Treasury issues. The IMB reviews available ratings from Standard & Poor's, Moody's, and Fitch, and reports the rating indicative of the greatest degree of risk. All of the Pool's investments had the highest credit ratings as of June 30, 2018.

Concentration of Credit Risk

The Pool is restricted from investing more than 5 percent of the value of the Pool in any one corporate name. At June 30, 2018, the Pool was in compliance with this restriction and is not exposed to concentration of credit risk.

Custodial Credit Risk

At June 30, 2018, the Pool held no investments that were subject to custodial credit risk. Repurchase agreements are collateralized at 102 percent and the collateral is held in the name of the IMB. All remaining investments are held by the IMB's custodian in the name of the IMB.

Interest Rate Risk

The weighted average maturity (WAM) of the investments of the Pool is not to exceed 60 days. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the WAM for the different asset types in the Pool as of June 30, 2018:

Investment Type	Carrying Value	WAM (days)
Commercial paper	\$ 22,171	26
Repurchase agreement	40,000	2
U.S. Government agency bonds	106,794	46
U.S. Treasury bonds	49,326	79
Total investments	<u>\$ 218,291</u>	<u>43</u>

Foreign Currency Risk

The Pool has no investments that are subject to foreign currency risk.

Short-Term Fixed Income Pool

Notes to Financial Statements

(Amounts in thousands, except share data)

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 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 June 30, 2018:

<u>Assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Commercial paper	\$ -	\$ 22,171	\$ -	\$ 22,171
Repurchase agreement	-	40,000	-	40,000
U.S. Government agency bonds	-	106,794	-	106,794
U.S. Treasury bonds	-	49,326	-	49,326
Total	<u>\$ -</u>	<u>\$ 218,291</u>	<u>\$ -</u>	<u>\$ 218,291</u>

Short-Term Fixed Income Pool

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

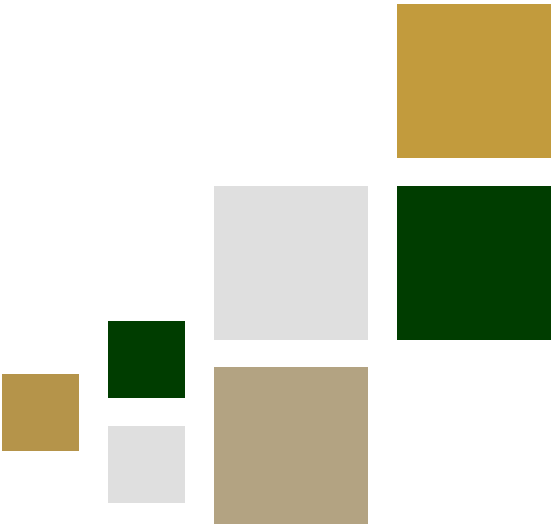
NOTE 5. SCHEDULE OF PARTICIPATION

The following schedule provides the value of participants' accounts in the Pool at June 30, 2018:

<u>Participant</u>	<u>Account Value</u>
Teachers' Retirement System	\$ 118,089
Workers' Compensation Old Fund	45,129
State Police Death, Disability and Retirement Fund	24,909
Coal Workers' Pneumoconiosis Fund	11,120
Board of Risk and Insurance Management	7,629
Public Employees' Retirement System	3,435
Workers' Compensation Self-Insured Employer Security Risk Pool	2,215
Workers' Compensation Self-Insured Employer Guaranty Risk Pool	1,425
Workers' Compensation Uninsured Employers' Fund	1,260
West Virginia Prepaid Tuition Trust Fund	1,003
State Police Retirement System	584
Deputy Sheriff's Retirement System	478
Judges' Retirement System	346
Emergency Medical Services Retirement System	322
Municipal Police Officers' and Firefighters' Retirement System	206
Municipal Policemen's or Firemen's Pension and Relief Funds	59
Wildlife Endowment Fund	59
Public Employees Insurance Agency	1
Total	<u>\$ 218,269</u>

AUDITED FINANCIAL STATEMENTS
June 30, 2018

F



TOTAL RETURN FIXED INCOME POOL

Total Return Fixed Income Pool

Audited Financial Statements June 30, 2018

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Report of Independent Auditors

To the Board of Trustees
West Virginia Investment Management Board

We have audited the accompanying financial statements of the West Virginia Investment Management Board Total Return Fixed Income Pool, which comprise the statement of net position as of June 30, 2018, and the related statement of changes in net position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the West Virginia Investment Management Board Total Return Fixed Income Pool at June 30, 2018, and the changes in its net position for the year then ended, in conformity with U.S. generally accepted accounting principles.

Basis of Presentation

As discussed in Note 1, the financial statements present only the Total Return Fixed Income Pool and do not purport to, and do not, present fairly the financial position of the West Virginia Investment Management Board, at June 30, 2018, and the changes in its financial position for the year then ended in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.



Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages F-1 through F-2 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Ernst + Young LLP

September 7, 2018

Total Return Fixed Income Pool

Management Discussion and Analysis (Unaudited)

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. The IMB operates on a fiscal year beginning July 1 and ending June 30. To effectuate its purpose the IMB has constructed a series of investment pools in which to invest participating entities monies.

The following information and 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, the information contained in this Management Discussion and Analysis and the following 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 Management Discussion and Analysis information should be considered in conjunction with the information contained in the audited financial statements which follow this section.

Financial Statement Overview

Management's Discussion and Analysis is an introduction to the Pool's basic financial statements. 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. Accordingly, the financial statements presented have been prepared in conformity with the reporting framework prescribed by GASB for external investment pools. The financial statements for the Pool include a Statement of Net Position and a Statement of Changes in Net Position. These financial statements are supported by the Notes to Financial Statements.

Pool Strategy

The objective of the Pool is to generate investment income, provide stability, and enhance diversification but not at the expense of total return. The Pool is expected to outperform the Bloomberg Barclays U.S. Universal Bond Index over three- to five-year periods, net of external investment management fees.

Condensed Financial Information and Analysis (in \$000s)

The Statement of Net Position presents the financial position of the Pool as of June 30, 2018, and includes all assets and liabilities of the Pool. The difference between total assets and total liabilities, which is equal to the participants' interest in the Pool's net position, is shown below for the current and prior fiscal year-end dates:

Condensed Net Position	June 30, 2018	June 30, 2017
Investments	\$ 2,471,293	\$ 2,515,570
Investment derivatives	15,280	14,887
Other assets	64,101	58,812
Total assets	2,550,674	2,589,269
Investment derivatives and security sold short	(16,598)	(8,317)
Other liabilities	(168,602)	(258,618)
Total liabilities	(185,200)	(266,935)
Net position	\$ 2,365,474	\$ 2,322,334

Total Return Fixed Income Pool

Management Discussion and Analysis (Unaudited)

Yearly variances in the net position of the Pool are impacted by the overall performance of fixed income securities. Net position is also impacted by expenses charged to the Pool and the issuance and redemption of Pool units. The increase in the Pool's net position of \$43,140 results from net investment income of \$19,633, a decrease from distributions to unitholders of \$65,332, and a net increase from unit transactions of \$88,839.

The Statement of Changes in Net Position presents the Pool's activity for the year.

Condensed Changes in Net Position	Years Ended	
	June 30, 2018	June 30, 2017
Investment income	\$ 28,263	\$ 144,769
Expenses	(8,630)	(5,622)
Net investment income	19,633	139,147
Distributions to unitholders	(65,332)	(64,391)
Net units issued	88,839	103,669
Increase in net position	43,140	178,425
Net position, beginning of year	2,322,334	2,143,909
Net position, end of year	<u>\$ 2,365,474</u>	<u>\$ 2,322,334</u>

The investment income of the Pool consists primarily of the net increase in fair value of investments and interest received on fixed income securities.

The IMB calculates total rates of return using the time-weighted rate of return methodology. The time-weighted method determines the rate of return exclusive of the effects of participant contributions or withdrawals. The return of the Pool (net of fees) for the year ended June 30, 2018 was 0.9 percent, down from 6.7 percent for the year ended June 30, 2017.

Select financial highlights are as follows:

Per Unit Operating Performance:	Years Ended	
	June 30, 2018	June 30, 2017
Net position, beginning of year	\$ 14.97	\$ 14.46
Net increase in net position	0.13	0.95
Distributions to unitholders (a)	(0.40)	(0.44)
Net position, end of year	<u>\$ 14.70</u>	<u>\$ 14.97</u>
Supplemental Data (b):		
Ratio of expenses to average net position (c)	0.26%	0.26%
Portfolio turnover rate	42.71%	47.43%

- (a) Calculation based on the average shares outstanding
- (b) All ratios are for the fiscal year and do not reflect the Pool's proportionate share of expenses of the underlying investee funds.
- (c) Excluded securities lending expenses

Total Return Fixed Income Pool

Statement of Net Position

June 30, 2018

(Amounts in thousands, except unit data)

Assets

Investments, at fair value:	
Fixed income investments	\$ 2,274,263
Derivative instruments	15,280
Money market mutual fund	33,322
Equity investments	10,900
Securities lending collateral (Note 6)	152,808
Cash	43,963
Receivables:	
Interest, dividends, and other investment income	18,324
Investments sold	1,814
	<hr/>
Total assets	2,550,674

Liabilities

Investments in derivative instruments at fair value	16,109
Security sold short at fair value	489
Accrued expenses	1,457
Payable for investments purchased	14,337
Payable upon return of securities loaned (Note 6)	152,808
	<hr/>
Total liabilities	185,200
	<hr/>
Net position	\$ 2,365,474

Unit data

Units outstanding	160,913,771
Net position, unit price	<hr/> <hr/> \$ 14.70

See accompanying notes to financial statements.

Total Return Fixed Income Pool

Statement of Changes in Net Position Year Ended June 30, 2018 (Amounts in thousands)

Investment income

Net decrease in fair value of investments	\$	(65,752)
Interest, dividends, and other investment income		90,947
Securities lending income		<u>3,068</u>
Total investment income		28,263

Expenses

Investment advisor fees		(5,309)
Custodian bank fees		(184)
Management and other allocated fees		(748)
Securities lending expenses		<u>(2,389)</u>
Total expenses		<u>(8,630)</u>

Net investment income 19,633

Distributions to unitholders

(65,332)

Unit transactions

Proceeds from sale of units		250,580
Reinvestment of distributions		70,917
Amount paid for repurchase of units		<u>(232,658)</u>

Net increase in from unit transactions 88,839

Increase in net position 43,140

Net position, beginning of year 2,322,334

Net position, end of year \$ 2,365,474

See accompanying notes to financial statements.

Total Return Fixed Income Pool

Notes to Financial Statements

(Amounts in thousands, except share data)

NOTE 1. DESCRIPTION OF THE ENTITY

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

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

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

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

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

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Investment Valuation - The IMB reports its investments at fair value in accordance with GASB Statement No. 72. Refer to Note 5 for further discussion and presentation of the reporting requirements under GASB Statement No. 72.

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

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

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

Total Return Fixed Income Pool

Notes to Financial Statements

(Amounts in thousands, except share data)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

Total Return Fixed Income Pool

Notes to Financial Statements

(Amounts in thousands, except share data)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

Total Return Fixed Income Pool

Notes to Financial Statements

(Amounts in thousands, except share data)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

Distributions to Participants - Prior to May 1, 2018, the monthly net investment income (excluding net increase (decrease) in fair value of investments) was declared as a dividend on the last day of the month and distributed to the participants of the Pool on the first day of the following month. Distributions were 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. The Pool does not routinely distribute dividends of net realized gains. Effective May 1, 2018, the Pool no longer routinely distributes 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 June 30, 2018.

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

Total Return Fixed Income Pool

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

NOTE 3. INVESTMENT RISK DISCLOSURES

Credit Risk

The Pool is exposed to credit risk from its fixed income investments, money market mutual fund investment, and certain investments made with cash collateral for securities loaned. The IMB limits the exposure to credit risk in the Pool by maintaining at least an average rating of investment grade as defined by a nationally recognized statistical rating organization. The IMB reviews available ratings from Standard & Poor's, Moody's, and Fitch, and reports the rating indicative of the greatest degree of risk. The money market mutual fund has the highest credit rating. The following table provides credit ratings for the Pool's fixed income investments as of June 30, 2018:

Rating	Fair Value
AAA	\$ 22,196
AA	889,097
A	104,870
BBB	587,744
BB	314,638
B	296,262
CCC	12,274
CC	3,716
C	403
D	3,982
Withdrawn	85
Not rated	38,996
Total fixed income investments	<u>\$ 2,274,263</u>

Credit risk from securities lending collateral investments are limited by requiring minimum ratings on debt instruments. Long-term debt instruments must be rated A or better by Moody's or Standard & Poor's at the time of purchase. Short-term debt instruments must be rated P-1 by Moody's or A-1 by Standard & Poor's at the time of purchase. The IMB reviews available ratings from Standard & Poor's and Moody's, and reports the rating indicative of the greatest degree of risk. The following table provides the credit ratings for the Pool's securities lending collateral investments as of June 30, 2018:

Rating	Fair Value
AAA	\$ 41,003
AA	4,410
A	4,605
BBB	6,287
Not applicable	96,503
Total securities lending collateral	<u>\$ 152,808</u>

Concentration of Credit Risk

The Pool is restricted from investing more than 5 percent of the value of the Pool in any one corporate name. At June 30, 2018, the Pool was in compliance with this restriction and is not exposed to concentration of credit risk.

Custodial Credit Risk

At June 30, 2018, the Pool held no securities that were subject to custodial credit risk. Repurchase agreements, when held, are collateralized at 102 percent and the collateral is held in the name of the IMB. Securities on loan are collateralized to a minimum of 102 percent and the collateral is held by the IMB's custodian in the name of the IMB. Investments in commingled funds are held in an account in the name of the IMB. All remaining securities are held by the IMB's custodian in the name of the IMB.

Total Return Fixed Income Pool

Notes to Financial Statements

(Amounts in thousands, except share data)

NOTE 3. INVESTMENT RISK DISCLOSURES (continued)

Interest Rate Risk

The Pool is exposed to interest rate risk from its fixed income investments, money market mutual fund investment, and certain investments made with cash collateral for securities loaned. As of June 30, 2018, the money market mutual fund has a weighted average maturity (WAM) of 39 days. The WAM for securities lending collateral investments is not to exceed 90 days. As of June 30, 2018, the WAM for securities lending collateral was 2 days.

The IMB monitors interest rate risk of the Pool by evaluating the effective duration of the investments in the Pool. Effective duration is a method of disclosing interest rate risk that measures the expected change in the price of a fixed income security for a 1 percent change in interest rates. The effective duration calculation takes into account the most likely timing of variable cash flows, which is particularly useful for measuring interest rate risk of callable bonds, commercial and residential mortgage-backed securities, asset-backed securities, and collateralized mortgage obligations. The following table provides the weighted average effective duration for the various asset types in the Pool as of June 30, 2018:

Investment Type	Fair Value	Effective Duration (years)
Commingled bond funds	\$ 304,379	2.5
Corporate ABS residual	5,487	2.8
Corporate asset backed issues	36,072	0.9
Corporate CMO	71,666	1.0
Foreign asset backed issues	19,588	1.6
Foreign corporate bonds	296,352	5.6
Foreign government bonds	263,976	5.3
Municipal bonds	44,629	9.6
Repurchase agreements	10,000	0.0
U.S. corporate bonds	401,582	6.9
U.S. Government agency bonds	2,721	1.3
U.S. Government agency CMO	51,608	1.4
U.S. Government agency CMO interest-only	5,664	2.8
U.S. Government agency MBS	326,082	3.7
U. S. Government agency TBA	8,974	6.4
U.S. Treasury bonds	407,697	8.5
U.S. Treasury inflation protected security	17,786	17.2
Total fixed income investments	<u>\$ 2,274,263</u>	

The Pool invests in commercial and residential mortgage-backed securities, asset-backed securities, and collateralized mortgage obligations. The cash flows from these securities are based on the payment of the underlying collateral. The effective duration and yield to maturity of these securities are dependent on estimated prepayment assumptions that consider historical experience, market conditions and other criteria. Actual prepayments may vary with changes in interest rates. Rising interest rates often result in a slower rate of prepayments while declining rates tend to lead to faster prepayments. As a result, the fair values of these securities are highly sensitive to interest rate changes. At June 30, 2018, the Pool held \$525,141 of these securities. This represents approximately 23 percent of the value of the Pool's securities.

Foreign Currency Risk

The Pool has foreign fixed income, foreign equity investments, and cash that is denominated in foreign currencies and exposed to foreign currency risks. The Pool also has foreign denominated derivative investments. Refer to Note 4 for details on these contracts. Additionally, the Pool has indirect exposure to foreign currency risk through its ownership interests in certain of the commingled investment pools. Approximately \$84,695, or 28 percent, of the commingled investment pools hold substantially all of their investments in securities denominated in foreign currencies. This represents approximately 3 percent of the value of the Pool's securities.

Total Return Fixed Income Pool

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

NOTE 3. INVESTMENT RISK DISCLOSURES (continued)

The amounts at fair value (in U.S. dollars) of investments and cash denominated in foreign currencies as of June 30, 2018, are as follows:

Currency	Foreign Fixed Income	Foreign Equity Investments	Cash	Total
Argentine Peso	\$ 8,328	\$ -	\$ 824	\$ 9,152
Azerbaijani Manat	640	-	-	640
Brazil Real	26,048	-	12	26,060
Colombian Peso	5,376	-	-	5,376
Deutsche Mark	1,390	-	-	1,390
Dominican Peso	1,771	-	-	1,771
Egyptian Pound	3,671	-	1,129	4,800
Euro Currency Unit	-	-	9,688	9,688
British Pound	-	-	1,174	1,174
Georgian Lari	2,085	-	-	2,085
Ghana Cedi	2,758	-	-	2,758
Indonesian Rupiah	1,756	-	-	1,756
Indian Rupee	581	-	-	581
Japanese Yen	50,279	-	194	50,473
Kenyan Shilling	2,784	-	-	2,784
Kazakhstani Tenge	1,758	-	-	1,758
Mexican Peso	41,777	-	3,600	45,377
New Zealand Dollar	-	-	797	797
Peruvian Nuevo Sol	1,726	-	-	1,726
Russian Ruble	27,247	-	-	27,247
Swedish Krona	-	-	1,021	1,021
Turkish Lira	3,916	-	-	3,916
Ugandan Shilling	736	-	-	736
Uruguayan Peso	8,218	-	-	8,218
South African Rand	6,174	14	-	6,188
Total foreign denominated investments	\$ 199,019	\$ 14	\$ 18,439	\$ 217,472
U.S. Dollar	380,897	-	25,524	406,421
Total	<u>\$ 579,916</u>	<u>\$ 14</u>	<u>\$ 43,963</u>	<u>\$ 623,893</u>

NOTE 4. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

Total Return Fixed Income Pool

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

NOTE 4. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The table below presents the fair value, the net increase (decrease) in fair value, and the notional amounts of derivative financial instruments outstanding as of June 30, 2018:

Derivative Type	Fair Value	Net Increase (Decrease) in Fair Value of Investments	Notional Value (in USD)
Fixed income futures long	\$ 79	\$ (7,708)	\$ 1,624,193
Fixed income futures short	(4,121)	910	(608,571)
Fixed income options purchased	1,887	(14,913)	98,295
Fixed income options written	(2,363)	9,082	(123,516)
Foreign currency forward contracts	3,415	3,529	159,467
Credit default swaptions purchased	51	44	1,844
Credit default swaptions written	(18)	134	(5,492)
Interest rate swaptions purchased	6,055	(882)	54,306
Credit default swaps	(3,240)	(31)	129,712
Interest rate swaps	(2,613)	2,791	458,971
Basis swaps	39	175	69,776
Total derivatives	<u>\$ (829)</u>	<u>\$ (6,869)</u>	<u>\$ 1,858,985</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 June 30, 2018:

Derivative Type	Derivative Assets Subject to a MA	Derivatives Available for Offset	Non-Cash Collateral Received	Cash Collateral Received	Net Exposure
Foreign currency forwards	\$ 1,358	\$ (172)	\$ (1,034)	\$ (152)	\$ -
Swaps	113	-	-	-	113
Swaptions	6,107	(18)	(6,089)	-	-
Total	<u>\$ 7,578</u>	<u>\$ (190)</u>	<u>\$ (7,123)</u>	<u>\$ (152)</u>	<u>\$ 113</u>

At June 30, 2018, the Pool had pledged cash of \$26,820 to cover margin requirements on open derivative contracts and counterparties had deposited, in segregated accounts, securities with a value of \$7,666 in connection with open derivative contracts.

Foreign currency forward contracts, certain swaps, and swaptions are exposed to counterparty credit risk. The IMB reviews available ratings from Standard & Poor's, Moody's, and Fitch and reports the rating indicative of the greatest degree of risk. The following table provides the credit ratings for the Pool's derivative investments that are subject to counterparty credit risk as of June 30, 2018:

Derivative Type	Counterparty Rating	Fair Value
Foreign currency forward contracts	BBB	\$ 4,057
Interest rate swaptions purchased	A	6,056
Credit default swaptions purchased	A	51
Credit default swaps	A	26
Credit default swaps	BBB	87
		<u>\$ 10,277</u>

Total Return Fixed Income Pool

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

NOTE 4. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Interest Rate Risk

The following table provides the time to maturity for investment derivatives that are subject to interest rate risk as of June 30, 2018:

Derivative Type	Fair Value	Investment Maturities (in years)			
		Under-1	1-5	6-10	10+
Fixed income futures long	\$ 79	\$ 1,291	\$ (1,212)	\$ -	\$ -
Fixed income futures short	(4,121)	(4,121)	-	-	-
Fixed income options purchased	1,887	1,887	-	-	-
Fixed income options written	(2,363)	(2,363)	-	-	-
Interest rate swaptions purchased	6,055	-	6,055	-	-
Interest rate swaps	(2,613)	-	(3,280)	-	667
Basis swaps	39	-	-	39	-
	<u>\$ (1,037)</u>	<u>\$ (3,306)</u>	<u>\$ 1,563</u>	<u>\$ 39</u>	<u>\$ 667</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 June 30, 2018, the open positions in interest rate swaps denominated in U.S. dollars were as follows:

Maturity Date	Reference Rate	Notional	Fair Value
8/31/2022	Receive Fixed 2.85%, Pay Floating 3-Month Libor	\$ 148,062	\$ (211)
2/3/2033	Receive Fixed 3.00%, Pay Floating 3-Month Libor	40,100	(192)
2/6/2033	Receive Fixed 3.15%, Pay Floating 3-Month Libor	19,990	137
11/15/2043	Receive Floating 3-Month Libor, Pay Fixed 2.73%	1,236	60
11/15/2043	Receive Floating 3-Month Libor, Pay Fixed 2.95%	38,617	311
		<u>\$ 248,005</u>	<u>\$ 105</u>

At June 30, 2018, the open positions in interest rate swaps denominated in foreign currencies were as follows:

Maturity Date	Reference Rate	Notional (in USD)	Fair Value
4/5/2021	Receive Fixed 7.35%, Pay Floating MXN TIE	\$ 90,392	\$ (1,482)
4/6/2022	Receive Fixed 7.33%, Pay Floating MXN TIE	61,967	(1,192)
2/2/2023	Receive Floating 3-Month SEK STIBOR, Pay Fixed 0.67%	26,090	(395)
4/19/2047	Receive Floating 6-Month JPY Libor, Pay Fixed 0.79%	32,517	351
		<u>\$ 210,966</u>	<u>\$ (2,718)</u>

At June 30, 2018, the open position in a basis swap was as follows:

Maturity Date	Reference Rate	Notional	Fair Value
9/19/2023	Receive Fed Funds plus 0.36%, Pay 3-Month Libor	\$ 69,776	\$ 39

Total Return Fixed Income Pool

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

NOTE 4. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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 June 30, 2018, are as follows:

Currency	Foreign Currency Forward Contracts	Futures Contracts	Swap Contracts	Total
Australian Dollar	\$ 48	\$ -	\$ -	\$ 48
Brazil Real	1,099	-	-	1,099
Canadian Dollar	168	-	-	168
Euro Currency Unit	159	(2,023)	-	(1,864)
British Pound	94	-	-	94
Japanese Yen	1,673	-	351	2,024
Mexican Peso	166	-	(2,674)	(2,508)
Russian Ruble	8	-	-	8
Swedish Krona	-	-	(395)	(395)
Total foreign denominated derivatives	\$ 3,415	\$ (2,023)	\$ (2,718)	\$ (1,326)
U.S. Dollar	-	(2,019)	(3,096)	(5,115)
Total	\$ 3,415	\$ (4,042)	\$ (5,814)	\$ (6,441)

NOTE 5. 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 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 June 30, 2018. All of the Pool's investments in other funds were valued using the net asset value per share, as such they have not been categorized in the fair value hierarchy.

Total Return Fixed Income Pool

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

NOTE 5. FAIR VALUE MEASUREMENTS (continued)

Assets	Level 1	Level 2	Level 3	Total
Corporate ABS residual	\$ -	\$ 5,487	\$ -	\$ 5,487
Corporate asset backed issues	-	36,072	-	36,072
Corporate CMO	-	71,666	-	71,666
Corporate preferred securities	10,886	-	-	10,886
Foreign asset backed issues	-	19,588	-	19,588
Foreign corporate bonds	-	296,352	-	296,352
Foreign currency forward contracts	-	4,057	-	4,057
Foreign equity investments	14	-	-	14
Foreign government bonds	-	263,976	-	263,976
Futures contracts	1,631	-	-	1,631
Money market mutual fund	33,322	-	-	33,322
Municipal bonds	-	44,629	-	44,629
Options contracts purchased	1,887	6,106	-	7,993
Repurchase agreement	-	10,000	-	10,000
Securities lending collateral	-	152,808	-	152,808
Swaps	-	1,599	-	1,599
U.S. corporate bonds	-	401,582	-	401,582
U.S. Government agency bond	-	2,721	-	2,721
U.S. Government agency CMO	-	51,608	-	51,608
U.S. Government agency CMO interest-only	-	5,664	-	5,664
U.S. Government agency MBS	-	326,082	-	326,082
U.S. Government agency TBAs	-	8,974	-	8,974
U.S. Treasury bonds	-	407,697	-	407,697
U.S. Treasury inflation protected securities	-	17,786	-	17,786
Total	<u>\$ 47,740</u>	<u>\$ 2,134,454</u>	<u>\$ -</u>	<u>\$ 2,182,194</u>
Commingled debt funds				304,379
Total				<u>\$ 2,486,573</u>
Liabilities	Level 1	Level 2	Level 3	Total
Foreign currency forward contracts	\$ -	\$ (642)	\$ -	\$ (642)
Futures contracts	(5,673)	-	-	(5,673)
Options contracts written	(2,363)	(18)	-	(2,381)
Security sold short	-	(489)	-	(489)
Swaps	-	(7,413)	-	(7,413)
Total	<u>\$ (8,036)</u>	<u>\$ (8,562)</u>	<u>\$ -</u>	<u>\$ (16,598)</u>

The Pool's investments in commingled debt funds were measured at the NAV as of June 30, 2018. These commingled debt funds invest in certain niche sectors, particularly ones that are not a significant percentage to the Pool, to provide economies of scale and efficiencies in establishing and managing a diversified portfolio that would be otherwise difficult to achieve. These funds offer daily liquidity.

Total Return Fixed Income Pool

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

NOTE 6. SECURITIES LENDING

The following table presents the amounts of various accounts related to securities lending at June 30, 2018:

	Fair Value
Securities on loan	\$ 250,126
Collateral received:	
Cash	\$ 152,808
Non-cash	103,663
Total collateral received	\$ 256,471

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

NOTE 7. SCHEDULE OF PARTICIPATION

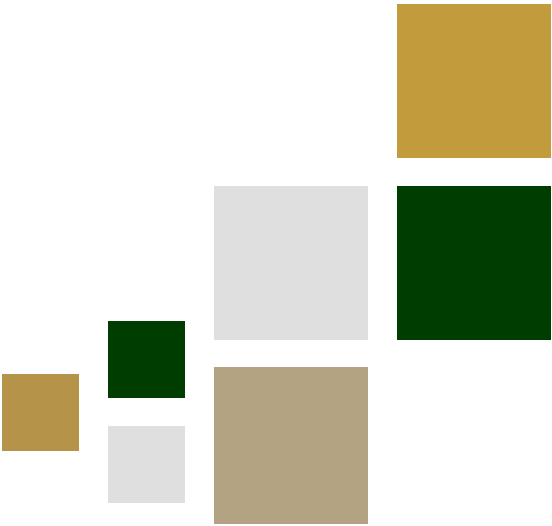
The following schedule provides the value of participants' accounts in the Pool at June 30, 2018:

Participant	Account Value
Teachers' Retirement System	\$ 714,138
Public Employees' Retirement System	637,623
Workers' Compensation Old Fund	323,583
Revenue Shortfall Reserve Fund - Part B	167,777
West Virginia Retiree Health Benefit Trust Fund	87,553
State Police Death, Disability and Retirement Fund	61,258
Revenue Shortfall Reserve Fund	57,878
Coal Workers' Pneumoconiosis Fund	56,952
Public Employees Insurance Agency	52,652
West Virginia Department of Environmental Protection Agency	52,351
Board of Risk and Insurance Management	35,033
Deputy Sheriff's Retirement System	21,079
West Virginia Prepaid Tuition Trust Fund	20,512
Judges' Retirement System	19,426
State Police Retirement System	18,235
Workers' Compensation Self-Insured Employer Security Risk Pool	12,315
Workers' Compensation Self-Insured Employer Guaranty Risk Pool	7,999
Emergency Medical Services Retirement System	7,628
Wildlife Endowment Fund	6,174
Workers' Compensation Uninsured Employers' Fund	2,545
West Virginia Department of Environmental Protection Trust	917
Berkeley County Development Authority	749
Municipal Police Officers' and Firefighters' Retirement System	747
Municipal Policemen's or Firemen's Pension and Relief Funds	350
Total	\$ 2,365,474

AUDITED FINANCIAL STATEMENTS
June 30, 2018



CORE FIXED INCOME POOL



Core Fixed Income Pool

Audited Financial Statements June 30, 2018

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Report of Independent Auditors

To the Board of Trustees
West Virginia Investment Management Board

We have audited the accompanying financial statements of the West Virginia Investment Management Board Core Fixed Income Pool, which comprise the statement of net position as of June 30, 2018, and the related statement of changes in net position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the West Virginia Investment Management Board Core Fixed Income Pool at June 30, 2018, and the changes in its net position for the year then ended, in conformity with U.S. generally accepted accounting principles.

Basis of Presentation

As discussed in Note 1, the financial statements present only the Core Fixed Income Pool and do not purport to, and do not, present fairly the financial position of the West Virginia Investment Management Board, at June 30, 2018, and the changes in its financial position for the year then ended in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.



Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages G-1 through G-2 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Ernst + Young LLP

September 7, 2018

Core Fixed Income Pool

Management Discussion and Analysis (Unaudited)

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. The IMB operates on a fiscal year beginning July 1 and ending June 30. To effectuate its purpose the IMB has constructed a series of investment pools in which to invest participating entities monies.

The following information and 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, the information contained in this Management Discussion and Analysis and the following 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 Management Discussion and Analysis information should be considered in conjunction with the information contained in the audited financial statements which follow this section.

Financial Statement Overview

Management's Discussion and Analysis is an introduction to the Pool's basic financial statements. 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. Accordingly, the financial statements presented have been prepared in conformity with the reporting framework prescribed by GASB for external investment pools. The financial statements for the Pool include a Statement of Net Position and a Statement of Changes in Net Position. These financial statements are supported by the Notes to Financial Statements.

Pool Strategy

The objective of the Pool is to generate investment income, provide stability, and enhance diversification but not at the expense of total return. The Pool is expected to outperform the Bloomberg Barclays U.S. Aggregate Bond Index over three- to five-year periods, net of external investment management fees.

Condensed Financial Information and Analysis (in \$000s)

The Statement of Net Position presents the financial position of the Pool as of June 30, 2018, and includes all assets and liabilities of the Pool. The difference between total assets and total liabilities, which is equal to the participants' interest in the Pool's net position, is shown below for the current and prior fiscal year-end dates:

Condensed Net Position	June 30, 2018	June 30, 2017
Investments	\$ 1,121,591	\$ 1,095,675
Other assets	5,556	5,503
Total assets	1,127,147	1,101,178
Total liabilities	(85,137)	(105,106)
Net position	<u>\$ 1,042,010</u>	<u>\$ 996,072</u>

Core Fixed Income Pool

Management Discussion and Analysis (Unaudited)

Yearly variances in the net position of the Pool are impacted by the overall performance of fixed income securities. Net position is also impacted by expenses charged to the Pool and the issuance and redemption of Pool units. The increase in the Pool's net position of \$45,938 results from net investment loss of \$2,475, a decrease from distributions to unitholders of \$26,565, and a net increase from unit transactions of \$74,978.

The Statement of Changes in Net Position presents the Pool's activity for the year.

Condensed Changes in Net Position	Years Ended	
	June 30, 2018	June 30, 2017
Investment income	\$ 710	\$ 2,024
Expenses	(3,185)	(1,691)
Net investment income (loss)	(2,475)	333
Distributions to unitholders	(26,565)	(29,917)
Net units issued	74,978	32,609
Increase in net position	45,938	3,025
Net position, beginning of year	996,072	993,047
Net position, end of year	<u>\$ 1,042,010</u>	<u>\$ 996,072</u>

The investment income of the Pool consists primarily of the net increase in fair value of investments and interest received on fixed income securities.

The IMB calculates total rates of return using the time-weighted rate of return methodology. The time-weighted method determines the rate of return exclusive of the effects of participant contributions or withdrawals. The return of the Pool (net of fees) for the year ended June 30, 2018 was -0.2 percent, down from 0.1 percent for the year ended June 30, 2017.

Select financial highlights are as follows:

Per Unit Operating Performance:	Years Ended	
	June 30, 2018	June 30, 2017
Net position, beginning of year	\$ 11.06	\$ 11.40
Net decrease in net position	(0.01)	(0.01)
Distributions to unitholders (a)	(0.28)	(0.33)
Net position, end of year	<u>\$ 10.77</u>	<u>\$ 11.06</u>
Supplemental Data (b):		
Ratio of expenses to average net position (c)	0.16%	0.17%
Portfolio turnover rate	27.62%	22.59%

- (a) Calculation based on the average shares outstanding
- (b) All ratios are for the fiscal year
- (c) Excludes securities lending expenses

Core Fixed Income Pool

Statement of Net Position

June 30, 2018

(Amounts in thousands, except unit data)

Assets

Investments, at fair value:	
Fixed income investments	\$ 1,027,011
Money market mutual fund	17,736
Securities lending collateral (Note 5)	76,844
Receivables:	
Interest, dividends, and other investment income	5,366
Investments sold	190
	<hr/>
Total assets	1,127,147

Liabilities

Accrued expenses	331
Payable for investments purchased	7,962
Payable upon return of securities loaned (Note 5)	76,844
	<hr/>
Total liabilities	85,137
	<hr/>
Net position	\$ 1,042,010

Unit data

Units outstanding	96,724,294
Net position, unit price	\$ 10.77

See accompanying notes to financial statements.

Core Fixed Income Pool

Statement of Changes in Net Position
Year Ended June 30, 2018
(Amounts in thousands)

Investment income

Net decrease in fair value of investments	\$ (33,019)
Interest, dividends, and other investment income	31,949
Securities lending income	<u>1,780</u>

Total investment income 710

Expenses

Investment advisor fees	(1,281)
Custodian bank fees	(67)
Management and other allocated fees	(322)
Securities lending expenses	<u>(1,515)</u>

Total expenses (3,185)

Net investment loss (2,475)

Distributions to unitholders

(26,565)

Unit transactions

Proceeds from sale of units	124,805
Reinvestment of distributions	29,080
Amount paid for repurchase of units	<u>(78,907)</u>

Net increase from unit transactions 74,978

Increase in net position 45,938

Net position, beginning of year 996,072

Net position, end of year \$ 1,042,010

See accompanying notes to financial statements.

Core Fixed Income Pool

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

NOTE 1. DESCRIPTION OF THE ENTITY

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

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

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

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

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

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

Distributions to Participants - Prior to May 1, 2018, the monthly net investment income (excluding net increase (decrease) in fair value of investments) was declared as a dividend on the last day of the month and distributed to the participants of the Pool on the first day of the following month. Distributions were 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. The Pool does not routinely distribute dividends of net realized gains. Effective May 1, 2018, the Pool no longer routinely distributes net 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 June 30, 2018.

Core Fixed Income Pool

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

NOTE 3. INVESTMENT RISK DISCLOSURES

Credit Risk

The Pool is exposed to credit risk from its fixed income investments, money market mutual fund investment, and certain investments made with cash collateral for securities loaned. The IMB limits the exposure to credit risk in the Pool by maintaining at least an average rating of investment grade as defined by a nationally recognized statistical rating organization. The IMB reviews available ratings from Standard & Poor's, Moody's, and Fitch, and reports the rating indicative of the greatest degree of risk. The money market mutual fund has the highest credit rating. The following table provides credit ratings for the Pool's fixed income investments as of June 30, 2018:

<u>Rating</u>	<u>Fair Value</u>
AAA	\$ 54,135
AA	609,075
A	129,011
BBB	169,116
BB	10,953
B	1,877
CCC	1,091
C	4
D	193
Withdrawn	325
Not rated	51,231
Total fixed income investments	<u>\$ 1,027,011</u>

Credit risk from securities lending collateral investments are limited by requiring minimum ratings on debt instruments. Long-term debt instruments must be rated A or better by Moody's or Standard & Poor's at the time of purchase. Short-term debt instruments must be rated P-1 by Moody's or A-1 by Standard & Poor's at the time of purchase. The IMB reviews available ratings from Standard & Poor's and Moody's, and reports the rating indicative of the greatest degree of risk. The following table provides the credit ratings for the Pool's securities lending collateral investments as of June 30, 2018:

<u>Rating</u>	<u>Fair Value</u>
AAA	\$ 20,620
AA	2,218
A	2,316
BBB	3,162
Not applicable	48,528
Total securities lending collateral	<u>\$ 76,844</u>

Concentration of Credit Risk

The Pool is restricted from investing more than 5 percent of the value of the Pool in any one corporate name. At June 30, 2018, the Pool was in compliance with this restriction and is not exposed to concentration of credit risk.

Custodial Credit Risk

At June 30, 2018, the Pool held no securities that were subject to custodial credit risk. Repurchase agreements, when held, are collateralized at 102 percent and the collateral is held in the name of the IMB. Securities on loan are collateralized to a minimum of 102 percent and the collateral is held by the IMB's custodian in the name of the IMB. All remaining securities are held by the IMB's custodian in the name of the IMB.

Interest Rate Risk

The Pool is exposed to interest rate risk from its fixed income investments, money market mutual fund investment, and investments made with cash collateral for securities loaned. As of June 30, 2018, the money market mutual fund has a weighted average maturity (WAM) of 39 days. The WAM for securities lending collateral investments is not to exceed 90 days. As of June 30, 2018, the WAM for securities lending collateral was 2 days.

Core Fixed Income Pool

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

NOTE 3. INVESTMENT RISK DISCLOSURES (continued)

The IMB monitors interest rate risk of the Pool by evaluating the effective duration of the investments in the Pool. Effective duration is a method of disclosing interest rate risk that measures the expected change in the price of a fixed income security for a 1 percent change in interest rates. The effective duration calculation considers the most likely timing of variable cash flows, which is particularly useful for measuring interest rate risk of callable bonds, commercial and residential mortgage-backed securities, asset-backed securities, and collateralized mortgage obligations. The following table provides the weighted average effective duration for the Pool's fixed income investments as of June 30, 2018:

Investment Type	Fair Value	Effective Duration (years)
Corporate asset backed issues	\$ 137,199	2.0
Corporate CMO	39,165	3.2
Corporate CMO interest-only	396	(6.5)
Corporate CMO principal-only	107	3.3
Foreign asset backed issues	3,499	3.6
Foreign corporate bonds	64,249	5.4
Foreign government bonds	5,887	8.2
Municipal bonds	9,007	12.9
U.S. corporate bonds	205,614	6.5
U.S. Government agency bonds	18,746	2.2
U.S. Government agency CMO	104,772	4.3
U.S. Government agency CMO interest-only	2,337	15.8
U.S. Government agency CMO principal-only	5,683	6.7
U.S. Government agency MBS	176,391	4.3
U.S. Treasury bonds	253,524	8.8
U.S. Treasury inflation protected securities	435	2.2
Total fixed income investments	<u>\$ 1,027,011</u>	

The Pool invests in commercial and residential mortgage-backed securities, asset-backed securities, and collateralized mortgage obligations. The cash flows from these securities are based on the payment of the underlying collateral. The effective duration and yield to maturity of these securities are dependent on estimated prepayment assumptions that consider historical experience, market conditions and other criteria. Actual prepayments may vary with changes in interest rates. Rising interest rates often result in a slower rate of prepayments while declining rates tend to lead to faster prepayments. As a result, the fair values of these securities are highly sensitive to interest rate changes. At June 30, 2018, the Pool held \$469,549 of these securities. This represents approximately 46 percent of the value of the Pool's securities.

Foreign Currency Risk

None of the securities held by the Pool are exposed to foreign currency risk.

Core Fixed Income Pool

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

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.

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 June 30, 2018:

Assets	Level 1	Level 2	Level 3	Total
Corporate asset backed issues	\$ -	\$ 137,199	\$ -	\$ 137,199
Corporate CMO	-	39,165	-	39,165
Corporate CMO interest-only	-	396	-	396
Corporate CMO principal-only	-	107	-	107
Foreign asset backed issues	-	3,499	-	3,499
Foreign corporate bonds	-	64,249	-	64,249
Foreign government bonds	-	5,887	-	5,887
Money market mutual fund	17,736	-	-	17,736
Municipal bonds	-	9,007	-	9,007
Securities lending collateral	-	76,844	-	76,844
U.S. corporate bonds	-	205,614	-	205,614
U.S. Government agency bonds	-	18,746	-	18,746
U.S. Government agency CMO	-	104,772	-	104,772
U.S. Government agency CMO interest-only	-	2,337	-	2,337
U.S. Government agency CMO principal-only	-	5,683	-	5,683
U.S. Government agency MBS	-	176,391	-	176,391
U.S. Treasury bonds	-	253,524	-	253,524
U.S. Treasury inflation protected securities	-	435	-	435
Total	<u>\$ 17,736</u>	<u>\$ 1,103,855</u>	<u>\$ -</u>	<u>\$ 1,121,591</u>

Core Fixed Income Pool

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

NOTE 5. SECURITIES LENDING

The following table presents the amounts of various accounts related to securities lending at June 30, 2018:

	<u>Fair Value</u>
Securities on loan	\$ 90,372
Collateral received:	
Cash	\$ 76,844
Non-cash	15,688
Total collateral received	<u>\$ 92,532</u>

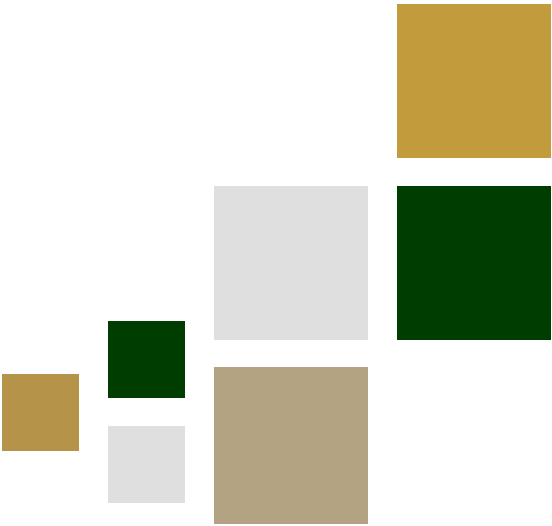
The BNYM, as agent for the IMB, loans the IMB's securities to various counterparties. These transactions are executed under Master Securities Lending Agreements (MSLA) which permit BNYM under certain circumstances, such as defaults, to offset amounts payable to the same counterparty against amounts to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

NOTE 6. SCHEDULE OF PARTICIPATION

The following schedule provides the value of participants' accounts in the Pool at June 30, 2018:

<u>Participant</u>	<u>Account Value</u>
Teachers' Retirement System	\$ 310,183
Public Employees' Retirement System	278,378
Workers' Compensation Old Fund	140,536
Revenue Shortfall Reserve Fund - Part B	72,850
West Virginia Retiree Health Benefit Trust Fund	38,256
State Police Death, Disability and Retirement Fund	26,667
Revenue Shortfall Reserve Fund	25,130
Coal Workers' Pneumoconiosis Fund	24,859
West Virginia Department of Environmental Protection Agency	23,184
Public Employees Insurance Agency	22,967
West Virginia Prepaid Tuition Trust Fund	20,741
Board of Risk and Insurance Management	15,310
Deputy Sheriff's Retirement System	9,174
Judges' Retirement System	8,491
State Police Retirement System	7,933
Workers' Compensation Self-Insured Employer Security Risk Pool	5,481
Workers' Compensation Self-Insured Employer Guaranty Risk Pool	3,487
Emergency Medical Services Retirement System	3,334
Wildlife Endowment Fund	2,710
Workers' Compensation Uninsured Employers' Fund	1,115
West Virginia Department of Environmental Protection Trust	419
Berkeley County Development Authority	327
Municipal Police Officers' and Firefighters' Retirement System	326
Municipal Policemen's or Firemen's Pension and Relief Funds	152
Total	<u>\$ 1,042,010</u>

AUDITED FINANCIAL STATEMENTS
June 30, 2018



TIPS Pool

Audited Financial Statements June 30, 2018

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Report of Independent Auditors

To the Board of Trustees
West Virginia Investment Management Board

We have audited the accompanying financial statements of the West Virginia Investment Management Board TIPS Pool, which comprise the statement of net position as of June 30, 2018, and the related statement of changes in net position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the West Virginia Investment Management Board TIPS Pool at June 30, 2018, and the changes in its net position for the year then ended, in conformity with U.S. generally accepted accounting principles.

Basis of Presentation

As discussed in Note 1, the financial statements present only the TIPS Pool and do not purport to, and do not, present fairly the financial position of the West Virginia Investment Management Board, at June 30, 2018, and the changes in its financial position for the year then ended in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.



Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages H-1 through H-2 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Ernst + Young LLP

September 7, 2018

TIPS Pool

Management Discussion and Analysis (Unaudited)

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. The IMB operates on a fiscal year beginning July 1 and ending June 30. To effectuate its purpose the IMB has constructed a series of investment pools in which to invest participating entities monies.

The following information and 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, the information contained in this Management Discussion and Analysis and the following 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 Management Discussion and Analysis information should be considered in conjunction with the information contained in the audited financial statements which follow this section.

Financial Statement Overview

Management's Discussion and Analysis is an introduction to the Pool's basic financial statements. 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. Accordingly, the financial statements presented have been prepared in conformity with the reporting framework prescribed by GASB for external investment pools. The financial statements for the Pool include a Statement of Net Position and a Statement of Changes in Net Position. These financial statements are supported by the Notes to Financial Statements.

Pool Strategy

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.

Condensed Financial Information and Analysis (in \$000s)

The Statement of Net Position presents the financial position of the Pool as of June 30, 2018, and includes all assets and liabilities of the Pool. The difference between total assets and total liabilities, which is equal to the participants' interest in the Pool's net position, is shown below for the current and prior fiscal year-end dates:

Condensed Net Position	June 30, 2018	June 30, 2017
Investments	\$ 391,265	\$ 337,671
Other assets	-	27,153
Total assets	391,265	364,824
Total liabilities	(31)	(36,641)
Net position	\$ 391,234	\$ 328,183

TIPS Pool

Management Discussion and Analysis (Unaudited)

Yearly variances in the net position of the Pool are impacted by the movement of interest rates of the U.S. Treasury securities held in the index referenced above. Net position is also impacted by expenses charged to the Pool and the issuance and redemption of Pool units. The increase in the Pool's net position of \$63,051 results from net investment income of \$7,764, and a net increase from unit transactions of \$55,287.

The Statement of Changes in Net Position presents the Pool's activity for the year.

Condensed Changes in Net Position	Years Ended	
	June 30, 2018	June 30, 2017
Investment income (loss)	\$ 8,063	\$ (1,611)
Expenses	(299)	(217)
Net investment income (loss)	7,764	(1,828)
Net units issued (redeemed)	55,287	(58,562)
Increase (decrease) in net position	63,051	(60,390)
Net position, beginning of year	328,183	388,573
Net position, end of year	<u>\$ 391,234</u>	<u>\$ 328,183</u>

The investment income (loss) of the Pool consists primarily of the net increase (decrease) in fair value of investments and interest received on fixed income securities.

The IMB calculates total rates of return using the time-weighted rate of return methodology. The time-weighted method determines the rate of return exclusive of the effects of participant contributions or withdrawals. The return of the Pool (net of fees) for the year ended June 30, 2018 was 2.1 percent, up from -0.7 percent for the year ended June 30, 2017.

Select financial highlights for the Pool are as follows:

Per Unit Operating Performance:	Years Ended	
	June 30, 2018	June 30, 2017
Net position, beginning of year	\$ 11.17	\$ 11.25
Net increase (decrease) in net position	0.24	(0.08)
Net position, end of year	<u>\$ 11.41</u>	<u>\$ 11.17</u>

Supplemental Data (a):		
Ratio of expenses to average net position (b)	0.06%	0.06%
Portfolio turnover rate	11.72%	26.83%

(a) All ratios are for the fiscal year

(b) Excludes securities lending expenses

TIPS Pool

Statement of Net Position
June 30, 2018
(Amounts in thousands, except unit data)

Assets

Investment in commingled bond fund at fair value	\$ 391,265
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Liabilities

Accrued expenses	<u>31</u>
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Net position	<u><u>\$ 391,234</u></u>
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Unit data

Units outstanding	34,278,363
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Net position, unit price	<u><u>\$ 11.41</u></u>
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See accompanying notes to financial statements.

TIPS Pool

Statement of Changes in Net Position
Year Ended June 30, 2018
(Amounts in thousands)

Investment income

Net increase in fair value of investments	\$ 5,736
Interest, dividends, and other investment income	2,159
Securities lending income	<u>168</u>

Total investment income 8,063

Expenses

Investment advisor fees	(87)
Custodian bank fees	(11)
Management and other allocated fees	(114)
Securities lending expenses	<u>(87)</u>

Total expenses (299)

Net investment income 7,764

Unit transactions

Proceeds from sale of units	76,470
Amount paid for repurchase of units	<u>(21,183)</u>

Net increase from unit transactions 55,287

Increase in net position 63,051

Net position, beginning of year 328,183

Net position, end of year \$ 391,234

See accompanying notes to financial statements.

TIPS Pool

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

NOTE 1. DESCRIPTION OF THE ENTITY

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

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

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

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

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

The Pool's objective is to match the performance of the Bloomberg Barclays U.S. Treasury Inflation Protection Index on an annualized basis over rolling three-year to five-year periods, gross of fees. Assets were managed by State Street Global Advisors through April 2, 2018. Effective April 4, 2018, 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 4 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.

Securities Lending - Through March 2018, the IMB, through its lending agent, the Bank of New York Mellon (BNYM), lent securities of the Pool to various brokers on a temporary basis. After BlackRock took over management of the Pool, the assets were transferred from a separate account into a commingled bond fund, and consequently the Pool will no longer participate in BNYM's lending program. The IMB received compensation in the form of loan premium fees and income from the investment of the cash collateral. Expenses related to the lending of securities were 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.

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.

TIPS 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 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 June 30, 2018.

NOTE 3. INVESTMENT RISK DISCLOSURES

The Pool invests in a commingled bond fund that holds primarily U.S. Treasury inflation protected securities. This investment is exposed to credit and interest rate risk. This fund is not rated by a nationally recognized statistical rating organization. Effective duration is a method of disclosing interest rate risk that measures the expected change in the price of a fixed income security for a 1 percent change in interest rates. As of June 30, 2018, the fund had an effective duration of 7.66 years. The Pool is not exposed to concentration of credit risk, custodial credit risk, or foreign currency risk.

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.

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 June 30, 2018:

Assets	Level 1	Level 2	Level 3	Total
Commingled bond fund	\$ 391,265	\$ -	\$ -	\$ 391,265

TIPS Pool

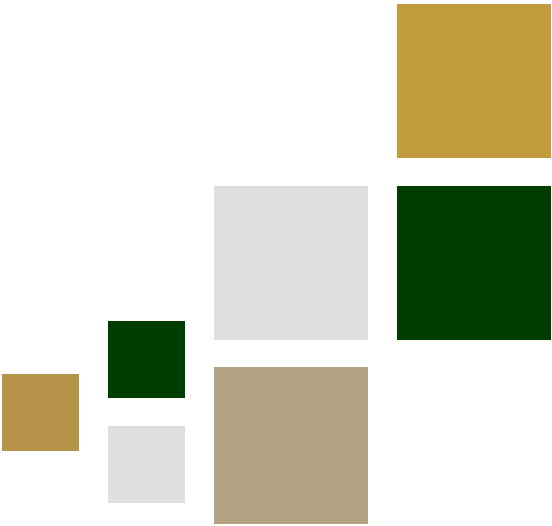
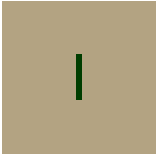
Notes to Financial Statements (Amounts in thousands, except share data)

NOTE 5. SCHEDULE OF PARTICIPATION

The following schedule provides the value of participants' accounts in the Pool at June 30, 2018:

<u>Participant</u>	<u>Account Value</u>
Workers' Compensation Old Fund	\$ 124,587
Revenue Shortfall Reserve Fund - Part B	100,551
Revenue Shortfall Reserve Fund	84,658
Public Employees Insurance Agency	30,155
Coal Workers' Pneumoconiosis Fund	25,559
Board of Risk and Insurance Management	15,381
Workers' Compensation Self-Insured Employer Security Risk Pool	5,529
Workers' Compensation Self-Insured Employer Guaranty Risk Pool	3,494
Workers' Compensation Uninsured Employers' Fund	1,320
Total	<u>\$ 391,234</u>

AUDITED FINANCIAL STATEMENTS
June 30, 2018



TRS Annuity Pool

Audited Financial Statements June 30, 2018

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Report of Independent Auditors

To the Board of Trustees
West Virginia Investment Management Board

We have audited the accompanying financial statements of the West Virginia Investment Management Board TRS Annuity Pool, which comprise the statement of net position as of June 30, 2018, and the related statement of changes in net position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the West Virginia Investment Management Board TRS Annuity Pool at June 30, 2018, and the changes in its net position for the year then ended, in conformity with U.S. generally accepted accounting principles.

Basis of Presentation

As discussed in Note 1, the financial statements present only the TRS Annuity Pool and do not purport to, and do not, present fairly the financial position of the West Virginia Investment Management Board, at June 30, 2018, and the changes in its financial position for the year then ended in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.



Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on page I-1 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Ernst + Young LLP

September 7, 2018

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TRS Annuity Pool

Management Discussion and Analysis (Unaudited)

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. The IMB operates on a fiscal year beginning July 1 and ending June 30. To effectuate its purpose the IMB has constructed a series of investment pools in which to invest participating entities monies.

The following information and the accompanying financial statements reflect only the investments and investment related operations of the IMB's TRS Annuity Pool (Pool). They do not reflect activity of the other investment pools under the control of the IMB or the Administrative Fund of the IMB, or any other assets or liabilities, or restrictions thereon, or the various investment pool participants. Accordingly, the information contained in the Management Discussion and Analysis and the following 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 Management Discussion and Analysis information should be considered in conjunction with the information contained in the audited financial statements which follow this section.

Financial Statement Overview

Management's Discussion and Analysis is an introduction to the Pool's basic financial statements. 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. Accordingly, the financial statements presented have been prepared in conformity with the reporting framework prescribed by GASB for external investment pools. The financial statements for the Pool include a Statement of Net Position and a Statement of Changes in Net Position. These financial statements are supported by the Notes to Financial Statements.

Pool Strategy

As described in Note 1 of the Notes to Financial Statements, the Pools' original purpose was to account for the investment contract issued by the Variable Annuity Life Insurance Company (VALIC) strictly for the benefit of the Teachers' Retirement System (TRS). The contract has been redeemed and the Pool has no investments or other assets. The Pool currently operates solely to account for ongoing litigation costs which are funded through contributions to the Pool by the TRS.

Condensed Financial Information and Analysis (in \$000s)

The Statement of Net Position presents the financial position of the Pool as of June 30, 2018, and includes all assets and liabilities of the Pool. The difference between total assets and total liabilities, which is equal to the participants' interest in the Pool's net position, is shown below for the current and prior fiscal year-end dates:

Condensed Net Position	June 30, 2018	June 30, 2017
Total assets	\$ -	\$ -
Total liabilities	(130)	(135)
Net position	<u>\$ (130)</u>	<u>\$ (135)</u>

The net position of the Pool fluctuates based on the changes in the Pool's position from operations and the impact of capital contributions. The increase in the Pool's net position of \$5 results from a net investment loss of \$521, and an increase from capital contributions of \$526.

The Statement of Changes in Net Position presents the Pool's activity for the year.

Condensed Changes in Net Position	Years Ended	
	June 30, 2018	June 30, 2017
Investment income	\$ -	\$ -
Expenses	(521)	(1,006)
Net investment loss	(521)	(1,006)
Contributions by TRS	526	1,006
Increase in net position	5	-
Net Position, beginning of year	(135)	(135)
Net Position, end of year	<u>\$ (130)</u>	<u>\$ (135)</u>

The Pool's expenses relate solely to ongoing litigation costs.

TRS Annuity Pool

Statement of Net Position
June 30, 2018
(Amounts in thousands)

Assets		\$	-
Liabilities			
Accrued expenses			<u>130</u>
	Net position	\$	<u><u>(130)</u></u>

See accompanying notes to financial statements.

TRS Annuity Pool

Statement of Changes in Net Position
Year Ended June 30, 2018
(Amounts in thousands)

Investment income	\$	-
Expenses		
Professional service fees		<u>(521)</u>
	Net investment loss	<u>(521)</u>
Capital transactions		
Contributions by TRS		<u>526</u>
	Increase in net position	5
	Net position, beginning of year	<u>(135)</u>
	Net position, end of year	<u><u>\$ (130)</u></u>

See accompanying notes to financial statements.

TRS Annuity Pool

Notes to Financial Statements

(Amounts in thousands, except share data)

NOTE 1. DESCRIPTION OF THE ENTITY

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

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

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

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

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

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

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

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

TRS Annuity Pool

Notes to Financial Statements

(Amounts in thousands, except share data)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

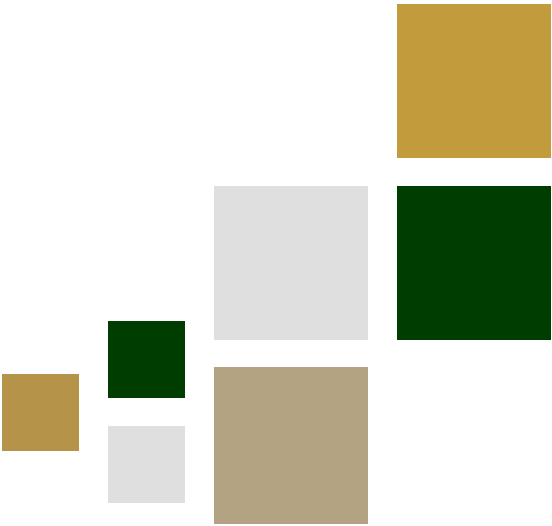
Use of Estimates - The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Income Taxes - The IMB is a public corporation organized under laws of the State of West Virginia and exempt from U.S. federal and state taxation. Accordingly, no provision for income taxes is required as of June 30, 2018.

AUDITED FINANCIAL STATEMENTS
June 30, 2018



PRIVATE MARKETS POOL





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Report of Independent Auditors

To the Board of Trustees
West Virginia Investment Management Board

We have audited the accompanying financial statements of the West Virginia Investment Management Board Private Markets Pool, which comprise the statement of net position as of June 30, 2018, and the related statement of changes in net position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the West Virginia Investment Management Board Private Markets Pool at June 30, 2018, and the changes in its net position for the year then ended, in conformity with U.S. generally accepted accounting principles.

Basis of Presentation

As discussed in Note 1, the financial statements present only the Private Markets Pool and do not purport to, and do not, present fairly the financial position of the West Virginia Investment Management Board, at June 30, 2018, and the changes in its financial position for the year then ended in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.



Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages J-1 through J-2 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Ernst + Young LLP

October 3, 2018

Private Markets Pool

Audited Financial Statements June 30, 2018

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Private Markets Pool

Management Discussion and Analysis (Unaudited)

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. The IMB operates on a fiscal year beginning July 1 and ending June 30. To effectuate its purpose the IMB has constructed a series of investment pools in which to invest participating entities monies.

The following information and 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, the information contained in this Management Discussion and Analysis and the following 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 Management Discussion and Analysis information should be considered in conjunction with the information contained in the audited financial statements which follow this section.

On July 1, 2017, the IMB created the Private Markets Pool (Pool) to invest primarily in private equity funds, real estate limited partnerships and funds, real estate investment trusts, middle market direct commercial loans, real estate loan funds, and other income focused funds. On July 1, 2017, the assets and liabilities (in \$000s) of \$1,627,023 from the Private Equity Pool, \$1,640,039 from the Real Estate Pool, and \$304,510 from the Opportunistic Income Pool were transferred in-kind to the Pool.

Financial Statement Overview

Management's Discussion and Analysis is an introduction to the Pool's basic financial statements. 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. Accordingly, the financial statements presented have been prepared in conformity with the reporting framework prescribed by GASB for external investment pools. The financial statements for the Pool include a Statement of Net Position and a Statement of Changes in Net Position. These financial statements are supported by the Notes to Financial Statements.

Pool Strategy

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.

Condensed Financial Information and Analysis (in \$000s)

The Statement of Net Position presents the financial position of the Pool as of June 30, 2018, and includes all assets and liabilities of the Pool. The difference between total assets and total liabilities, which is equal to the participants' interest in the Pool's net position, is shown below for the current fiscal year-end date:

Condensed Net Position	June 30, 2018
Investments	\$ 4,151,725
Other assets	14,201
Total assets	4,165,926
Total liabilities	(14,426)
Net position	\$ 4,151,500

Private Markets Pool

Management Discussion and Analysis (Unaudited)

The net position of the Pool is impacted by the overall performance of the global investment markets. Net position is also impacted by expenses charged to the Pool and the issuance and redemption of Pool units. The increase in the Pool's net position of \$4,151,500 results from net investment income of \$507,463 and a net increase from unit transactions of \$3,644,037. The net increase in unit transactions was comprised of an in-kind transfer of \$3,571,572 and a net increase from the purchases and sales of units of \$72,465.

The Statement of Changes in Net Position presents the Pool's activity for the year.

Condensed Changes in Net Position	Year Ended
	June 30, 2018
Investment income	\$ 517,175
Expenses	(9,712)
Net investment income	507,463
Net units issued	3,644,037
Increase in net position	4,151,500
Net position, beginning of year	-
Net position, end of year	\$ 4,151,500

The investment income of the Pool consists primarily of the net increase in fair value of investments and income distributions from limited partnerships.

The IMB calculates total rates of return using the time-weighted rate of return methodology. The time-weighted method determines the rate of return exclusive of the effects of participant contributions or withdrawals. The return of the Pool (net of fees) for the year ended June 30, 2018 was 13.9 percent.

Select financial highlights for the Pool are as follows:

Per Unit Operating Performance:	Year Ended
	June 30, 2018
Net position, beginning of year	\$ 15.00
Net increase in net position	2.09
Net position, end of year	\$ 17.09

Supplemental Data (a):

Ratio of expenses to average net position (b)	0.26%
Portfolio turnover rate	34.24%

- (a) All ratios are for the fiscal year and do not reflect the Pool's proportionate share of expenses of the underlying investee funds.
- (b) Excludes securities lending expenses

Private Markets Pool

Statement of Net Position

June 30, 2018

(Amounts in thousands, except unit data)

Assets

Investments, at fair value:	
Alternative investments	\$ 3,613,031
Equity investments	317,676
Fixed income investments	7,602
Money market mutual fund	202,780
Securities lending collateral (Note 5)	10,636
Cash	3,086
Receivables:	
Investments sold	2,348
Income distributions from real estate limited partnerships and funds	7,920
Interest, dividends, and other investment income	847
	<hr/>
Total assets	4,165,926

Liabilities

Accrued expenses	1,419
Payable for investments purchased	2,371
Payable upon return of securities loaned (Note 5)	10,636
	<hr/>
Total liabilities	14,426
	<hr/>
Net position	\$ 4,151,500

Unit data

Units outstanding	242,962,931
Net position, unit price	\$ 17.09

See accompanying notes to financial statements.

Private Markets Pool

Statement of Changes in Net Position Year Ended June 30, 2018 (Amounts in thousands)

Investment income

Net increase in fair value of investments	\$	401,989
Income from partnerships and funds		107,479
Interest, dividends, and other investment income		6,884
Fund closing interest		601
Securities lending income		222

Total investment income 517,175

Expenses

Investment advisor fees		(996)
Custodian bank fees		(112)
Management and other allocated fees		(1,127)
Professional service fees - direct		(1,337)
Management fees - external		(4,945)
Fund closing costs		(1,095)
Securities lending expenses		(100)

Total expenses (9,712)

Net investment income 507,463

Unit transactions

In-kind transfers		3,571,572
Proceeds from sale of units		324,186
Amount paid for repurchase of units		(251,721)

Net increase from unit transactions 3,644,037

Increase in net position 4,151,500

Net position, beginning of year -

Net position, end of year \$ 4,151,500

See accompanying notes to financial statements.

Private Markets Pool

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.

On July 1, 2017, the IMB created the Private Markets Pool (Pool) to invest primarily in private equity funds, real estate limited partnerships and funds, real estate investment trusts, middle market direct commercial loans, real estate loan funds, and other income focused funds. On July 1, 2017, the assets and liabilities of \$1,627,023 from the Private Equity Pool, \$1,640,039 from the Real Estate Pool, and \$304,510 from the Opportunistic Income Pool were transferred in-kind to the Pool.

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

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

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Investment Valuation - The IMB reports its investments at fair value in accordance with GASB Statement No. 72. Refer to Note 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:

- 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 June 30, 2018.
- Equity securities are valued at the last sale price or official closing price reported in the market in which they are primarily traded.
- Equity securities that trade in non-U.S. markets are valued in U.S. Dollars using period end spot market exchange rates as supplied by the Pool's custodian.

Private Markets Pool

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

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 June 30, 2018.

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

NOTE 3. INVESTMENT RISK DISCLOSURES

Credit Risk

The Pool is exposed to credit risk from its fixed income investments, money market mutual fund investment, investments in unrated opportunistic income funds, and certain investments made with cash collateral for securities loaned. The IMB limits the exposure to credit risk in the Pool by maintaining at least an average rating of investment grade as defined by a nationally recognized statistical rating organization. The IMB reviews available ratings from Standard & Poor's and Moody's, and reports the rating indicative of the greatest degree of risk. The money market mutual fund has the highest credit rating. Credit risk associated with the unrated opportunistic income funds are limited by requiring that underlying fund holdings are at least 90 percent collateralized by one or more assets of the issuer.

Private Markets Pool

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

NOTE 3. INVESTMENT RISK DISCLOSURES (continued)

The following table provides credit ratings for the Pool's fixed income investments as of June 30, 2018:

Rating	Fair Value
BBB	\$ 7,162
BB	440
Total fixed income investments	<u>\$ 7,602</u>

Credit risk from securities lending collateral investments are limited by requiring minimum ratings on debt instruments. Long-term debt instruments must be rated A or better by Moody's or Standard & Poor's at the time of purchase. Short-term debt instruments must be rated P-1 by Moody's or A-1 by Standard & Poor's at the time of purchase. The IMB reviews available ratings from Standard & Poor's and Moody's, and reports the rating indicative of the greatest degree of risk. The following table provides the credit ratings for the Pool's securities lending collateral investments as of June 30, 2018:

Rating	Fair Value
AAA	\$ 2,854
AA	307
A	321
BBB	438
Not applicable	6,716
Total securities lending collateral	<u>\$ 10,636</u>

Concentration of Credit Risk

The Pool's investments in alternative investment funds might be indirectly exposed to concentration of credit risk.

Custodial Credit Risk

At June 30, 2018, the Pool held no securities that were directly subject to custodial credit risk. Repurchase agreements, when held, are collateralized to a minimum of 102 percent and the collateral is held in the name of the IMB. Securities on loan are collateralized to a minimum of 102 percent and the collateral is held by the IMB's custodian in the name of the IMB. All remaining securities, except for the alternative investments, are held by the IMB's custodian in the name of the IMB. The alternative investments might be indirectly exposed to custodial credit risk.

Interest Rate Risk

The Pool is exposed to interest rate risk through its investments in U.S. corporate bonds, opportunistic income funds, securities lending collateral investments, and a money market mutual fund. The IMB monitors interest rate risk of U.S. corporate bonds by evaluating the effective duration. Effective duration is a method of disclosing interest rate risk that measures the expected change in the price of a fixed income security for a 1 percent change in interest rates. The effective duration calculation takes into account the most likely timing of variable cash flows, which is particularly useful for measuring interest rate risk of callable bonds. As of June 30, 2018, the effective duration for U.S. corporate bonds was 3.2 years. The IMB manages interest rate risk of the opportunistic income funds by requiring at least 80 percent of the opportunistic income fund holdings that mature in more than one year to have variable or floating interest rate structures. As of June 30, 2018, the money market mutual fund has a weighted average maturity (WAM) of 39 days. The WAM for securities lending collateral investments is not to exceed 90 days. As of June 30, 2018, the WAM for securities lending collateral was 2 days.

Foreign Currency Risk

The Pool holds foreign common stock, real estate limited partnerships and funds, and cash that is denominated in foreign currencies and exposed to foreign currency risks. The investments in private equity partnerships and opportunistic income funds might be indirectly exposed to foreign currency risk.

Private Markets Pool

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

NOTE 3. INVESTMENT RISK DISCLOSURES (continued)

The amounts at fair value (in U.S. dollars) of investments and cash denominated in foreign currencies as of June 30, 2018, are as follows:

Currency	Foreign Common Stock	Real Estate Limited Partnerships and Funds	Cash	Total
Australian Dollar	\$ 3,643	\$ -	\$ -	\$ 3,643
British Pound	4,305	-	-	4,305
Canadian Dollar	1,331	11,466	1	12,798
Euro Currency Unit	6,729	67,304	-	74,033
Hong Kong Dollar	6,656	-	-	6,656
Japanese Yen	7,581	-	22	7,603
Norwegian Krone	327	-	-	327
Singapore Dollar	1,812	-	-	1,812
Swedish Krona	2,509	-	-	2,509
Total foreign denominated investments	\$ 34,893	\$ 78,770	\$ 23	\$ 113,686
U.S. Dollar	1,542	1,543,530	3,063	1,548,135
Total	\$ 36,435	\$ 1,622,300	\$ 3,086	\$ 1,661,821

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 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.

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 June 30, 2018. All of the Pool's investments in private equity partnerships, real estate limited partnerships and funds, opportunistic income funds, and other private funds were valued using the NAV. As such, they have not been categorized in the fair value hierarchy table.

Private Markets Pool

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

NOTE 4. FAIR VALUE MEASUREMENTS (continued)

Assets	Level 1	Level 2	Level 3	Total
Commingled equity fund	\$ 186,323	\$ -	\$ -	\$ 186,323
Foreign common stock	36,435	-	-	36,435
Securities lending collateral	-	10,636	-	10,636
Money market mutual fund	202,780	-	-	202,780
U.S. common stock	84,550	-	-	84,550
U.S. corporate bonds	-	7,602	-	7,602
U.S. preferred stock	10,368	-	-	10,368
Total	<u>\$ 520,456</u>	<u>\$ 18,238</u>	<u>\$ -</u>	<u>\$ 538,694</u>
Opportunistic income funds				428,343
Private equity partnerships				1,562,388
Real estate limited partnerships and funds				1,622,300
Total				<u>\$ 4,151,725</u>

The following table presents information on investments measured at the NAV as of June 30, 2018:

Strategies	Fair Value	Unfunded Commitments	Contractual Termination Date Range (a)	Redemption Frequency	Redemption Notice Period
Opportunistic income:					
Middle Market Loan Funds (b)	\$ 288,855	\$ 69,760	N/A	N/A	N/A
Real Estate Income Funds (c)	139,488	162,553	2021 to 2028	Quarterly	45 days
Private equity partnerships:					
Corporate Finance - Buyout (d)	881,830	626,082	2018 to 2032	N/A	N/A
Corporate Finance - Distressed Debt (e)	203,404	65,709	2018 to 2028	N/A	N/A
Corporate Finance - Growth Equity (f)	52,035	38,226	2018 to 2027	N/A	N/A
Corporate Finance - Mezzanine (g)	71,738	61,458	2019 to 2028	N/A	N/A
Corporate Finance - Turnaround (h)	90,752	60,936	2018 to 2026	N/A	N/A
Venture Capital (i)	262,629	100,679	2023 to 2033	N/A	N/A
Real estate limited partnerships and funds:					
Core Funds (j)	889,165	50,396	2020 to 2022	Quarterly	45-60 days
Opportunistic Funds (k)	264,808	197,298	2018 to 2028	N/A	N/A
Value Funds (l)	468,327	375,776	2018 to 2028	Quarterly	60 days
Total	<u>\$ 3,613,031</u>	<u>\$ 1,808,873</u>			

- (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 - Mezzanine funds acquire or issue subordinated debentures frequently in businesses controlled by the General Partner, but in another Fund.
- (h) 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.

Private Markets Pool

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

NOTE 4. FAIR VALUE MEASUREMENTS (continued)

- (i) Venture Capital funds make investments in early stage through late stage companies, frequently start-ups in technology or healthcare.
- (j) 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.
- (k) 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.
- (l) 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 5. SECURITIES LENDING

The following table presents the amounts of various accounts related to securities lending at June 30, 2018:

	<u>Fair Value</u>
Securities on loan	\$ 30,218
Collateral received:	
Cash	\$ 10,636
Non-cash	22,112
Total collateral received	<u>\$ 32,748</u>

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

Private Markets Pool

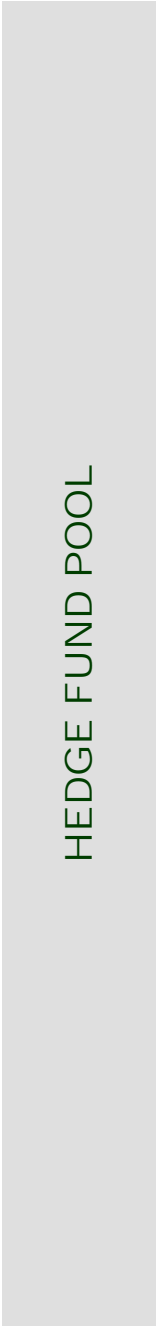
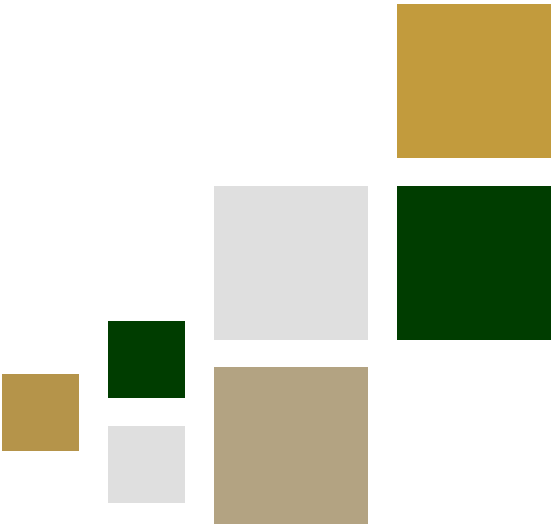
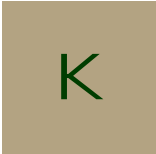
Notes to Financial Statements (Amounts in thousands, except share data)

NOTE 6. SCHEDULE OF PARTICIPATION

The following schedule provides the value of participants' accounts in the Pool at June 30, 2018:

<u>Participant</u>	<u>Account Value</u>
Teachers' Retirement System	\$ 1,893,364
Public Employees' Retirement System	1,677,031
West Virginia Retiree Health Benefit Trust Fund	224,373
State Police Death, Disability and Retirement Fund	165,045
Deputy Sheriff's Retirement System	54,410
Judges' Retirement System	50,898
State Police Retirement System	46,707
Emergency Medical Services Retirement System	19,524
Wildlife Endowment Fund	15,829
Berkeley County Development Authority	1,923
Municipal Police Officers' and Firefighters' Retirement System	1,884
Municipal Policemen's or Firemen's Pension and Relief Funds	512
Total	<u>\$ 4,151,500</u>

AUDITED FINANCIAL STATEMENTS
June 30, 2018



Hedge Fund Pool

Audited Financial Statements June 30, 2018

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Independent Auditors' Report

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Report of Independent Auditors

To the Board of Trustees
West Virginia Investment Management Board

We have audited the accompanying financial statements of the West Virginia Investment Management Board Hedge Fund Pool, which comprise the statement of net position as of June 30, 2018, and the related statement of changes in net position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the West Virginia Investment Management Board Hedge Fund Pool at June 30, 2018, and the changes in its net position for the year then ended, in conformity with U.S. generally accepted accounting principles.

Basis of Presentation

As discussed in Note 1, the financial statements present only the Hedge Fund Pool and do not purport to, and do not, present fairly the financial position of the West Virginia Investment Management Board, at June 30, 2018, and the changes in its financial position for the year then ended in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.



Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages K-1 through K-2 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Ernst + Young LLP

September 7, 2018

Hedge Fund Pool

Management Discussion and Analysis (Unaudited)

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. The IMB operates on a fiscal year beginning July 1 and ending June 30. To effectuate its purpose the IMB has constructed a series of investment pools in which to invest participating entities monies.

The following information and 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, the information contained in this Management Discussion and Analysis and the following 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 Management Discussion and Analysis information should be considered in conjunction with the information contained in the audited financial statements which follow this section.

Financial Statement Overview

Management's Discussion and Analysis is an introduction to the Pool's basic financial statements. 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. Accordingly, the financial statements presented have been prepared in conformity with the reporting framework prescribed by GASB for external investment pools. The financial statements for the Pool include a Statement of Net Position and a Statement of Changes in Net Position. These financial statements are supported by the Notes to Financial Statements.

Pool Strategy

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.

Condensed Financial Information and Analysis (in \$000s)

The Statement of Net Position presents the financial position of the Pool as of June 30, 2018, and includes all assets and liabilities of the Pool. The difference between total assets and total liabilities, which is equal to the participants' interest in the Pool's net position, is shown below for the current and prior fiscal year-end dates:

Condensed Net Position	June 30, 2018	June 30, 2017
Investments	\$ 2,130,988	\$ 1,809,911
Other assets	109,341	15,997
Total assets	2,240,329	1,825,908
Total liabilities	(171)	(150)
Net position	<u>\$ 2,240,158</u>	<u>\$ 1,825,758</u>

Hedge Fund Pool

Management Discussion and Analysis (Unaudited)

Yearly variances in the net position of the Pool are impacted by the overall performance of the global investment markets. Net position is also impacted by expenses charged to the Pool and the issuance and redemption of Pool units. The increase in the Pool's net position of \$414,400 results from net investment income of \$119,211 and a net increase from unit transactions of \$295,189.

The Statement of Changes in Net Position presents the Pool's activity for the year.

Condensed Changes in Net Position	Years Ended	
	June 30, 2018	June 30, 2017
Investment income	\$ 120,233	\$ 91,534
Expenses	(1,022)	(975)
Net investment income	119,211	90,559
Net units issued	295,189	136,922
Increase in net position	414,400	227,481
Net position, beginning of year	1,825,758	1,598,277
Net position, end of year	\$ 2,240,158	\$ 1,825,758

The investment income of the Pool is primarily from the net increase in fair value of investments.

The IMB calculates total rates of return using the time-weighted rate of return methodology. The time-weighted method determines the rate of return exclusive of the effects of participant contributions or withdrawals. The return of the Pool (net of fees) for the year ended June 30, 2018 was 6.4 percent, up from 5.7 percent for the year ended June 30, 2017.

Select financial highlights for the Pool are as follows:

Per Unit Operating Performance:	Years Ended	
	June 30, 2018	June 30, 2017
Net position, beginning of year	\$ 14.03	\$ 13.28
Net increase in net position	0.90	0.75
Net position, end of year	\$ 14.93	\$ 14.03

Supplemental Data (a):		
Ratio of expenses to average net position	0.05%	0.06%
Portfolio turnover rate	11.46%	3.45%

- (a) All ratios are for the fiscal year and do not reflect the Pool's proportionate share of expenses of the underlying investee funds.

Hedge Fund Pool

Statement of Net Position

June 30, 2018

(Amounts in thousands, except unit data)

Assets

Investments, at fair value:

Hedge funds \$ 2,078,624

Money market mutual fund 52,364

Advance on investments in hedge funds (Note 5) 88,500

Cash 2,787

Receivables:

Investment funds redeemed 17,788

Accrued interest and dividends 266

Total assets 2,240,329

Liabilities

Accrued expenses 171

Net position \$ 2,240,158

Unit data

Units outstanding 150,082,627

Net position, unit price \$ 14.93

See accompanying notes to financial statements.

Hedge Fund Pool

Statement of Changes in Net Position
Year Ended June 30, 2018
(Amounts in thousands)

Investment income

Net increase in fair value of investments	\$ 119,641
Interest, dividends, and other investment income	<u>592</u>
Total investment income	120,233

Expenses

Professional service fees - direct	(434)
Custodian bank fees	(1)
Management and other allocated fees	<u>(587)</u>
Total expenses	<u>(1,022)</u>
Net investment income	119,211

Unit transactions

Proceeds from sale of units	408,206
Amount paid for repurchase of units	<u>(113,017)</u>
Net increase from unit transactions	<u>295,189</u>
Increase in net position	414,400
Net position, beginning of year	<u>1,825,758</u>
Net position, end of year	<u><u>\$ 2,240,158</u></u>

See accompanying notes to financial statements.

Hedge Fund Pool

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

NOTE 1. DESCRIPTION OF THE ENTITY

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

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

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

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

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

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Investment Valuation - The IMB reports its investments at fair value in accordance with GASB Statement No. 72. Refer to Note 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:

- 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 June 30, 2018.
- Open-end regulated investment companies or other commingled investment funds are valued at the net asset value of the fund as reported by the fund's administrator.

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

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

Hedge Fund Pool

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Income Taxes - The IMB is a public corporation organized under laws of the State of West Virginia and exempt from U.S. federal and state taxation. Accordingly, no provision for income taxes is required as of June 30, 2018.

NOTE 3. INVESTMENT RISK DISCLOSURES

The Pool holds shares in hedge funds and shares of a money market mutual fund. As of June 30, 2018, the money market mutual fund has the highest credit rating and has a weighted average maturity of 39 days. The investments in hedge funds might be indirectly exposed to foreign currency risk, credit risk, interest rate risk, and/or custodial credit risk. The Pool is restricted from investing more than 10 percent of the value of the Pool with any single manager. At June 30, 2018, the Pool was in compliance with this restriction and is not exposed to concentration of credit risk.

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 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 4. 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 June 30, 2018. All of the Pool's investments in hedge funds were valued using the NAV. As such, they have not been categorized in the fair value hierarchy.

Assets	Level 1	Level 2	Level 3	Total
Money market mutual fund	\$ 52,364	\$ -	\$ -	\$ 52,364
Hedge funds				2,078,624
Total				<u>\$ 2,130,988</u>

The following table presents information on investments measured at the NAV as of June 30, 2018:

Hedge Fund Strategies	Fair Value	Redemption Frequency	Redemption Notice Period
Directional (a)	\$ 222,419	Monthly, Quarterly	3 to 30 days
Equity long/short (b)	277,653	Monthly, Quarterly, Every 3 years	30 to 60 days
Event-driven (c)	46,183	Quarterly	65 days
Long-biased (d)	60,818	Monthly	90 days
Multi-strategy (e)	1,198,457	Monthly, Quarterly, Annually	3 to 95 days
Relative-value (f)	273,094	Monthly, Quarterly	45 to 60 days
Total investments measured at the NAV	<u>\$ 2,078,624</u>		

- (a) Directional strategies employ various techniques to forecast the direction of segments of the market and then invest in either long or short positions to take advantage of that. The segments may be geographic economies, industry sectors, currency, or asset class. The investments may be in physical securities or derivatives. The strategies may be trend-following or mean-reverting and may be specific to that segment or universally applied across them.
- (b) An equity long/short strategy is an investing strategy, used primarily by hedge funds, that involves taking long positions in stocks that are expected to increase in value and short positions in stocks that are expected to decrease in value. Investments representing approximately 62 percent of the fair value of the investments in this strategy are subject to maximum withdrawal restrictions.
- (c) Event-driven managers maintain positions in companies currently or prospectively involved in various corporate transactions including, but not limited to, mergers, restructurings, financial distress, tender offers, shareholder buybacks, debt exchanges, security issuance or other capital structure adjustments. Security types can range from most senior in the capital structure to most junior or subordinated, and frequently involve additional derivative securities. Event-driven exposure includes a combination of sensitivities to equity markets, credit markets and company-specific developments. The sole fund in this investment strategy is subject to maximum withdrawal restrictions.
- (d) Long-biased strategies employ analytical techniques in which the investment thesis is predicated on assessment of the valuation characteristics on the underlying companies with the goal of identifying undervalued companies. Long-biased strategies may vary the investment level or the level of long exposure over market cycles, but the primary distinguishing characteristic is that the manager maintains consistent long exposure.
- (e) Multi-strategy managers combine several strategies within the same fund in order to provide diversification benefits to reduce return volatility and decrease asset-class and single-strategy risks. These funds typically add incremental returns through active allocation adjustments based on market opportunities. Risk is managed through a combination of quantitative and qualitative constraints including, but not limited to, active risk, liquidity risk, currency risk, manager risk, derivatives risk, and leverage risk. Investments representing approximately 48 percent of the fair value of the investments in this strategy are subject to maximum withdrawal restrictions.

Hedge Fund Pool

Notes to Financial Statements

(Amounts in thousands, except share data)

NOTE 4. FAIR VALUE MEASUREMENTS (continued)

(f) Relative-value managers maintain positions in which the investment thesis is predicated on the realization of a valuation discrepancy in the relationship between multiple securities. Managers employ a variety of fundamental and quantitative techniques to establish investment insights, and security types range broadly across equity, fixed income, derivative or other security types. Fixed income strategies are typically quantitatively driven to measure the existing relationship between instruments and, in some cases, identify attractive positions in which the risk-adjusted spread between these instruments represents an attractive opportunity. Investments representing approximately 36 percent of the fair value of the investments in this strategy are subject to maximum withdrawal restrictions.

NOTE 5. ADVANCE ON INVESTMENTS IN HEDGE FUNDS

The subscription terms of hedge funds often require contributions to be received in advance of the subscription day. On June 22, 2018, the IMB funded \$88,500 to hedge funds that had a subscription date of July 1, 2018. As of June 30, 2018, these amounts have been recorded as an advance on investments in hedge funds.

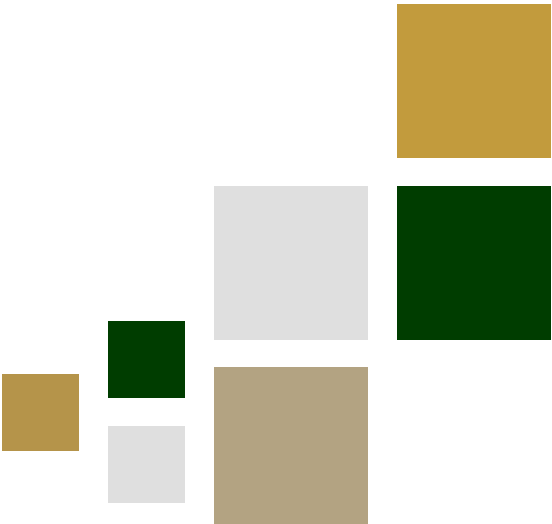
NOTE 6. SCHEDULE OF PARTICIPATION

The following schedule provides the value of participants' accounts in the Pool at June 30, 2018:

<u>Participant</u>	<u>Account Value</u>
Teachers' Retirement System	\$ 837,944
Public Employees' Retirement System	741,999
Workers' Compensation Old Fund	201,301
West Virginia Retiree Health Benefit Trust Fund	99,437
State Police Death, Disability and Retirement Fund	72,848
Coal Workers' Pneumoconiosis Fund	55,098
Public Employees Insurance Agency	44,284
West Virginia Department of Environmental Protection Agency	43,697
Board of Risk and Insurance Management	33,820
Deputy Sheriff's Retirement System	24,149
Judges' Retirement System	22,542
State Police Retirement System	20,757
Workers' Compensation Self-Insured Employer Security Risk Pool	11,968
Emergency Medical Services Retirement System	8,667
Workers' Compensation Self-Insured Employer Guaranty Risk Pool	7,605
Wildlife Endowment Fund	7,017
Workers' Compensation Uninsured Employers' Fund	2,876
West Virginia Department of Environmental Protection Trust	2,168
Berkeley County Development Authority	852
Municipal Police Officers' and Firefighters' Retirement System	840
Municipal Policemen's or Firemen's Pension and Relief Funds	289
Total	<u>\$ 2,240,158</u>

AUDITED FINANCIAL STATEMENTS

June 30, 2018



Administrative Fund

Audited Financial Statements June 30, 2018

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Report of Independent Auditors

The Board of Trustees
The West Virginia Investment Management Board

Report on the Financial Statements

We have audited the accompanying financial statements of the West Virginia Investment Management Board Administrative Fund (the Fund), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the West Virginia Investment Management Board Administrative Fund as of June 30, 2018, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

Basis of Presentation

As described in Note 1, the financial statements present only the Fund of the West Virginia Investment Management Board and do not include the financial position and results of operations of the West Virginia Investment Management Board for any of their investment pools. These financial statements do not purport to, and do not, present fairly the financial position of the West Virginia Investment Management Board for any of their investment pools at June 30, 2018, and changes in its financial position, and cash flows thereof, for the year ended in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis on pages i-iii be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Ernst & Young LLP

September 7, 2018

Administrative Fund

Management's Discussion and Analysis

This discussion and analysis of the West Virginia Investment Management Board's (IMB) financial performance provides an overview of the IMB's administrative financial activities for the fiscal year ended June 30, 2018. Please read it in conjunction with the IMB Administrative Fund basic financial statements, which follow this discussion. The IMB operates investment pools and issues separate audited financial statements on the investment pools.

FINANCIAL HIGHLIGHTS

- The IMB is required by law to charge a fee sufficient to cover the cost of providing investment management services. Investment service fee revenues were \$47.8 million, as compared to \$46.1 million for the previous fiscal year. The change primarily results from an increase in advisor fees of \$2.0 million and management fees of \$163,000. These increases were partially offset by a \$418,000 decrease in professional service fees, which were primarily for legal costs associated with the VALIC litigation. Average assets of the investment pools managed by the IMB increased by \$1.8 billion from the previous year.
- Fees paid to outside investment advisors increased by \$2.0 million over the previous year as a result of an increase in base fees due to an increase in assets under management and a decrease in performance-based fees of \$124,000. The average expense ratio for investment advisor fees across all pools was 21.1 basis points for the year, as compared to 20.4 basis points for the previous year.
- Custodian bank fees increased by \$22,000 from the previous year, primarily due to increased activity in the Total Return Fixed Income and Private Markets pools.
- Fees for professional services decreased by \$418,000, primarily attributable to a decrease in legal fees related to ongoing litigation.
- Administrative expenses increased by \$154,000, or 3.3 percent, from the previous year. The expense ratio for administrative expenses was 2.7 basis points of average net assets, which is consistent with the prior year. Salaries increased by \$150,000 from \$2.55 million to \$2.70 million. In total, administrative expenses were \$1.3 million lower than the expenses included in the fiscal year budget approved by the Board of Trustees.
- Dividend income increased by \$42,000 from the prior year, due to a higher interest rate on the sweep account.

THE FINANCIAL REPORTS

This financial report consists of three financial statements: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. These statements include all assets and liabilities of the IMB Administrative Fund using the economic resources measurement focus and the accrual basis of accounting. The accrual basis of accounting takes into account all revenues and expenses regardless of when cash is received or paid. These statements give an overall perspective of the IMB Administrative Fund's financial position and the changes in the financial position during the current fiscal year.

The Statement of Net Position presents the IMB Administrative Fund's assets and liabilities, with the difference between the two reported as net position. The Statement of Revenues, Expenses, and Changes in Net Position describes how the IMB Administrative Fund's net position changed during the fiscal year. The Statement of Cash Flows identifies the sources of cash received by the IMB Administrative Fund and how that cash was used in the IMB Administrative Fund's activities during the year. The ending cash presented in this statement is a significant portion of the IMB Administrative Fund's assets as reported in the Statement of Net Position. This statement also contains a reconciliation of the operating loss as reported in the Statement of Revenues, Expenses, and Changes in Net Position to the cash provided by the IMB Administrative Fund's operating activities during the year.

Administrative Fund

Management's Discussion and Analysis

FINANCIAL ANALYSIS

The IMB Administrative Fund's total assets as of June 30, 2018, were \$13.0 million, and were mostly comprised of cash and cash equivalents and receivables for investment service fees. This combined total was \$1.4 million less than the previous year.

Total liabilities as of June 30, 2018, were \$8.5 million, consisting of invoices payable and accrued liabilities for investment management and consulting fees, custodial fees, and administrative expenses. This was \$1.5 million less than the previous year.

These minor changes can be attributed to fluctuations in the timing of receipts and disbursements made in the normal course of business.

Table 1 Net Position and Assets Under Management (In thousands)	2018	2017
Cash and cash equivalents	\$4,269	\$5,184
Receivables	8,328	8,838
Other assets	<u>371</u>	<u>381</u>
Total assets	12,968	14,403
Total liabilities	<u>(8,470)</u>	<u>(9,968)</u>
Net position	<u>\$ 4,498</u>	<u>\$ 4,435</u>
Composition of net position:		
Net investment in capital assets	\$288	\$313
Unrestricted	4,210	4,122
Assets under management at June 30 *	\$ 19,400,682	\$ 18,292,719

Table 2 Changes in Net Position (In thousands)	2018	2017	Percentage Change
Investment service fees	\$47,842	\$46,116	3.7%
Expenses			
Advisor fees	(37,490)	(35,532)	5.5%
Custodian fees	(2,246)	(2,224)	1.0%
Trustee fees	(46)	(50)	(8.0%)
Fiduciary bond expense	(26)	(26)	0.0%
Professional service fees	(3,201)	(3,619)	(11.6%)
Administrative expenses	<u>(4,828)</u>	<u>(4,674)</u>	3.3%
Total expenses	(47,837)	(46,125)	3.7%
Operating income/(loss)	5	(9)	n/a
Nonoperating revenues	<u>58</u>	<u>16</u>	n/a
Increase in net position	63	7	n/a
Net position – beginning of year	<u>4,435</u>	<u>4,428</u>	0.2%
Net position – end of year	<u>\$ 4,498</u>	<u>\$ 4,435</u>	1.4%

* Amounts reflect preliminary estimated balances for private market investments.

Administrative Fund

Management's Discussion and Analysis

CAPITAL ASSETS

The IMB Administrative Fund made acquisitions of capital assets totaling \$131,496 during the current fiscal year. There were disposals of fully depreciated capital assets totaling \$32,933.

CONTACTING THE IMB

This financial report is designed to provide its readers with a general overview of the IMB Administrative Fund's finances. If you have any questions about this report or need additional information including the audited financial statements of the IMB Investment Pools, contact the IMB at 500 Virginia Street, East, Suite 200, Charleston, WV 25301-2164, or visit us at www.wvimb.org.

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Administrative Fund

Statement of Net Position June 30, 2018

Assets

Current assets:

Cash and cash equivalents	\$ 4,269,010
Accounts receivable	8,328,452
Prepaid expenses	76,046
Dividend receivable	6,916

Total current assets 12,680,424

Capital assets:

Equipment	428,384
Office furniture	218,749
Other depreciable property	288,265
Leasehold improvements	279,201
Less accumulated depreciation	(926,836)

Total capital assets (net of accumulated depreciation) 287,763

Total assets 12,968,187

Liabilities

Current liabilities:

Accounts payable and accrued expenses	8,470,092
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Total current liabilities 8,470,092

Total liabilities 8,470,092

Net position

Net investment in capital assets	287,763
Unrestricted	4,210,332

Total net position \$ 4,498,095

See accompanying notes to financial statements.

Administrative Fund

Statement of Revenues, Expenses, and Changes in Net Position Year Ended June 30, 2018

Operating revenues

Investment service fees \$ 47,842,515

Total operating revenues 47,842,515

Operating expenses

Advisor fees 37,490,083

Custodian fees 2,246,334

Trustee fees 46,250

Fiduciary bond expenses 25,875

Professional service fees 3,201,330

Administrative expenses 4,827,912

Total operating expenses 47,837,784

Operating income 4,731

Nonoperating revenues

Dividend income 58,706

Total nonoperating revenues 58,706

Increase in net position 63,437

Net position, beginning of year 4,434,658

Net position, end of year \$ 4,498,095

See accompanying notes to financial statements.

Administrative Fund

Statement of Cash Flows Year Ended June 30, 2018

Cash flows from operating activities

Cash received from customers	\$ 48,351,784
Cash paid to suppliers	(45,492,237)
Cash paid to employees	<u>(3,728,892)</u>

Net cash used for operating activities (869,345)

Cash flows from capital and related financing activities

Construction and acquisition of capital assets	<u>(101,106)</u>
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Net cash used for capital and related financing activities (101,106)

Cash flows from investing activities

Dividends on investments	<u>55,007</u>
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Net cash provided by investing activities 55,007

Net decrease in cash and cash equivalents (915,444)

Cash and cash equivalents, beginning of year 5,184,454

Cash and cash equivalents, end of year \$ 4,269,010

Reconciliation of operating income to net cash used on operating activities:

Operating income	\$ 4,731
Adjustments to reconcile operating income to net cash used by operating activities:	
Depreciation	125,873
Change in assets and liabilities:	
Decrease in accounts receivable	509,268
Increase in prepaid expenses	(10,610)
Decrease in accounts payable and accrued expenses	<u>(1,498,607)</u>

Total adjustments (874,076)

Net cash used for operating activities \$ (869,345)

See accompanying notes to financial statements.

Administrative Fund

Notes to Financial Statements

NOTE 1. NATURE OF ORGANIZATION

The West Virginia Investment Management Board (IMB) was organized on April 25, 1997, as a public corporation 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 Pneumoconiosis funds, and certain other state government funds. The IMB has established distinct investment pools to efficiently invest the entrusted funds. Separate financial statements are issued for these investment pools. The IMB Administrative Fund's financial statements are included as an internal service fund of the State of West Virginia in the State's financial statements and are presented as a blended component unit.

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.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the IMB Administrative Fund conform to accounting principles generally accepted in the United States of America. The following is a summary of significant accounting policies.

Cash and Cash Equivalents - Cash and cash equivalents consist of cash held in checking and money market accounts. Management believes the IMB Administrative Fund is not exposed to any significant credit or market risk on cash and cash equivalents. Cash equivalents are maintained with a financial institution in an institutional Treasury Money Market Fund which has an average maturity of less than 90 days.

Fair Value Measurements - GASB has issued Statement No. 72, *Fair Value Measurement and Application*, effective for periods beginning after June 15, 2015. The IMB Administrative Fund adopted this standard, which categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The IMB Administrative Fund's cash equivalents are invested in an institutional Treasury Money Market fund valued at \$4,268,810 as of June 30, 2018, using quoted market prices (Level 1 inputs).

Capital Assets - Purchased assets, when they meet the thresholds defined in the capitalization policy, are recorded at cost. Threshold requirements are \$2,500 for office equipment, furniture, fixtures, computer hardware, and software, and \$10,000 for buildings, building improvements, land improvements, infrastructure, and leasehold improvements. Land is capitalized irrespective of cost.

Depreciation on purchased assets is provided for over the estimated useful lives of the assets, ranging from three years to ten years using the straight-line method. Leasehold improvements are amortized over the life of the lease.

Revenues and Expenses - The IMB's Board of Trustees adopts an annual budget and fee schedule for services to be provided to the investment pools. Revenues of the IMB Administrative Fund are derived from the allocation of fees to the investment pools per the fee schedule. Each investment pool is charged for its direct investment-related cost and for its allocated share of other expenses. Revenues and expenses are recorded when earned or incurred in accordance with the economic resources measurement focus and the accrual basis of accounting. The carrying value of investment service fees receivable approximates its fair value.

Income Taxes - The IMB is a public corporation organized under laws of the State of West Virginia and is exempt from federal and state taxation. Accordingly, the IMB Administrative Fund financial statements have been prepared recognizing that the IMB is not subject to federal or state income taxes.

Administrative Fund

Notes to Financial Statements

NOTE 3. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Work in progress	\$ 30,389	\$ 31,157	\$ (61,546)	\$ -
Total capital assets, not being depreciated	<u>30,389</u>	<u>31,157</u>	<u>(61,546)</u>	<u>-</u>
Capital assets, being depreciated:				
Office equipment	422,687	19,390	(13,693)	428,384
Office furniture	218,749	-	-	218,749
Other depreciable property	214,240	93,265	(19,240)	288,265
Leasehold improvements	260,360	18,841	-	279,201
Total capital assets, being depreciated	<u>1,116,036</u>	<u>131,496</u>	<u>(32,933)</u>	<u>1,214,599</u>
Less accumulated depreciation for:				
Office equipment	(412,766)	(13,476)	13,693	(412,549)
Office furniture	(149,461)	(11,074)	-	(160,535)
Other depreciable property	(91,465)	(51,462)	19,240	(123,687)
Leasehold improvements	(180,204)	(49,861)	-	(230,065)
Total accumulated depreciation	<u>(833,896)</u>	<u>(125,873)</u>	<u>32,933</u>	<u>(926,836)</u>
Capital assets, net	<u>\$ 312,529</u>	<u>\$ 36,780</u>	<u>\$ (61,546)</u>	<u>\$ 287,763</u>

Depreciation expense of \$125,873 was charged to the investment management activity and is included in the administrative expenses.

NOTE 4. OPERATING LEASES

On July 9, 2012, the IMB executed an amendment to renew its long-term lease, originally dated August 26, 2002, and previously amended on December 7, 2006, for a period of seven years beginning on January 1, 2013, at a monthly cost of \$18,971. Effective November 1, 2013, the monthly cost increased to \$19,633 based on actual square footage calculations. Under the original and amended lease, beginning on January 1, 2013, and continuing throughout the term, the IMB shall pay as additional rent a portion of the increase in utility costs and taxes over the base year 2012 amounts. The IMB shall receive a refund if the actual amount is less than the base year 2012 amount. Rent expense for the year ended June 30, 2018 totaled \$235,599.

The following is a schedule of future minimum rental payments required under this lease.

Fiscal years ending June 30:

2019	235,599
2020	117,800
Total	<u>\$ 353,399</u>

Administrative Fund

Notes to Financial Statements

NOTE 5. EMPLOYEE BENEFIT PLANS

Retirement - The IMB provides a defined contribution money purchase pension plan (Pension Plan) covering all of its employees. An employee becomes eligible to participate in the Pension Plan on the earlier of the January 1 or July 1 coinciding with or following the employee's hire date. The Pension Plan is solely funded by the IMB, which contributes 10 percent of each covered employee's salary. Contributions for the year ended June 30, 2018 totaled \$269,505. The plan provides for a five-year vesting schedule with vesting increasing 20 percent per year.

Healthcare - On November 1, 2011, the IMB established the Defined Contribution Medical Plan (the Plan). The Plan is maintained for the exclusive benefit of employees and is a medical reimbursement plan under *Internal Revenue Service Code Section 105(h)*. The Plan identifies the IMB as the Plan Administrator and authorizes the IMB to amend the Plan as needed.

On November 1 of each plan year, the IMB determines an amount to credit each eligible employee that is allocated to a Health Reimbursement Arrangement (HRA) account for each participant. Current annual credits are \$1,000 for single employees and \$2,000 for employees with qualifying spouses or dependents. These credits are to be used to reimburse participants for out-of-pocket medical expenses not covered by any other source. Medical Expenses shall be defined under *Internal Revenue Service Code Section 213(d)*. Any amount remaining in a participant's HRA account at the end of the plan year shall be credited to the participant's account for the following year, in addition to the annual contribution. Upon separation from employment or retirement, a former employee or dependent will not continue to receive the annual credit but may use the remaining continued balance accumulated in the HRA account.

The IMB may at its discretion, through resolution of its Board of Trustees, discontinue funding the annual credits or terminate the Plan at any time without liability for such discontinuance or termination.

Contributions made to the Plan by the IMB for the year ended June 30, 2018 totaled \$71,667.

NOTE 6. CASH AND INVESTMENT RISK

At June 30, 2018, all of the IMB Administrative Fund's cash equivalents are invested in an institutional Treasury Money Market fund. This investment fund is rated Aaa by Moody's and AAA by Standard & Poor's and has no significant custodial credit risk or interest rate risk. The investment fund invests in U.S. Treasuries and is not exposed to a concentration of credit risk or any foreign currency risk. Cash balances are held in a FDIC insured bank account, the balance of which is below the \$250,000 insurance limit at all times.