

**STATE OF WASHINGTON
STATE INVESTMENT BOARD**

Administrative Committee Meeting Minutes

February 20, 2003

The Administrative Committee met in open session at 8:33 a.m. at the State Investment Board (SIB) office at 2100 Evergreen Park Dr S.W., Olympia, Washington.

Committee members present: John Charles, Chair
 Charlie Kaminski
 George Masten
 Mike Murphy
 Lee Ann Prielipp
 Debbie Brookman
 Glenn Gorton

Others Present: Joe Dear
 Sue Hedrick
 Gary Bruebaker
 Jeff Lane, Senior Assistant Attorney General

Chair Charles convened the meeting and identified the members in attendance.

ADOPTION OF MINUTES – FEBRUARY 10, 2003

Mr. Masten moved to adopt the Board minutes of February 10, 2003.
Mr. Murphy seconded the motion.

The motion passed unanimously.

ECONOMICALLY TARGETED INVESTMENTS (ETI) POLICY DISCUSSION

Mr. Dear handed out a draft ETI policy to the committee members that was prepared by staff. The basic framework of the policy is to require that any investment qualify on the basis of its risk and return before any secondary benefit is considered. Only after an investment is considered to be worthwhile for the Board, could secondary benefits such as economic development, job creation, and capital formation be considered. The core of the proposed policy is “The retirement funds’ exposure to the state of Washington economy, inclusive of investments in ETI’s, will generally, at a minimum, be in line with the state’s representation in the eligible investment universe, and will be consistent with the Board’s fiduciary obligations and independent exercise of discretion.”

Mr. Dear said he highlighted that sentence because there are some who would like the Board to adopt a numerical target for ETIs. This simply establishes a floor that the investment in the various asset classes that could be considered economically targeted investments will not be less than the proportion of that investable universe in the state in comparison to the rest of the country.

Mr. Dear noted two other things. At the bottom of Page 2, there are specific references to conversations with the Washington Technology Center or the Spokane Intercollegiate Research & Technology Institute for referrals of companies which may be suitable for consideration by our general partners (GP's) for investments. He said this is not intended to be a recommendation by the Board to the GP's to make an investment, but simply a referral. Secondly, he pointed out the reporting requirement described on Page 3 where the staff will ask the GP's to provide annually a list of investments they considered in the state of Washington. It would focus more attention on ETI simply by virtue of making the request, and that report would be the basis for an annual report by the Board to the Legislature and the Governor on ETI.

Treasurer Murphy asked how much the second draft varies from the previous version.

Mr. Dear said the previous policy is very limited and speaks only to housing; it does not address ETIs in private equity portfolios.

Mr. Murphy suggested a few minor corrections to the draft policy. Mr. Kaminski also suggested some changes.

Chair Charles asked if there were any other comments.

Mr. Masten said he thought the draft policy was pretty good. Ms. Prielipp said she thought it covers the things she knew they were concerned about.

Chair Charles said the policy needs to make clear that the trustees' duty is to their beneficiaries, not the Legislature, the Governor nor anyone else.

Mr. Masten suggested that, under "Policy," it should include a restatement of the fiduciaries' responsibilities.

Mr. Murphy suggested another edit in the first paragraph, third line. He said it should read, "pension trust fund assets."

Chair Charles asked if the committee felt comfortable in recommending the policy to the Board for review and discussion.

Mr. Prielipp asked if there wasn't some urgency in adopting the policy. Mr. Dear said yes, but he recommended a March adoption in order to give the public time to comment on the draft policy.

Treasurer Murphy recommended sending the policy as amended to the Board for consideration and discussion, with the intent to adopt it in March. Mr. Masten seconded it.

The motion passed unanimously.

Mr. Dear then discussed the follow-up steps to the Board's January governance workshop. He said that John Por, the consultant, identified four action items based on the workshop. The first is trustee education and orientation with specific emphasis on investment management principles. The suggestion was to conduct an investment workshop. The second is to do policy development and periodic policy reviews. The third is to clarify the role of the Board, committees, key staff and others in the decision-making process. Those two would be addressed by adopting new governance policies which would be worked on between now and the July 31-August 1st workshop.

The purpose of the investment workshop is to bring the new members up to speed and give all members a common starting point. Mr. Dear said he would like to use John Por, the consultant from the January workshop, for the investment seminar and for the summer workshop. The fourth recommendation is to develop and maintain the Board's institutional memory. No action on this recommendation needs to be taken until after the July 31-August 1st workshop. Mr. Dear said he investigated using other providers for the investment workshop, but determined it was most cost-effective and logical to use the same provider for all three parts of the Board governance project.

A discussion ensued about the cost of the consultant for the investment seminar and workshop, and possible dates to do the investment seminar. Chair Charles also recommended more diversity in the presentation, and Treasurer Murphy recommended more time for networking.

Mr. Masten asked if there would be a training program so that, as the Board positions turn over, there would be something developed for new members. He said there is currently a policy that encourages members to attend at least three trainings per year, and asked if this would replace that.

Mr. Dear responded that the purpose is a customized training session for the Board.

Mr. Masten asked if this would have to be done over and over again, or whether there will be a package that someone at the SIB can do more than once for new members. He said he thought that, through this process, the Board would have a package for future training for new board members, but this doesn't sound like that.

Chair Charles clarified that there are two separate things in terms of education of the Board members. Mr. Masten is looking at a longer-term strategic education plan as new Board members come on. It would be something they could continue with. Mr. Dear is focused on a short-term plan necessary to bring all Board members up to an equal level to make some

decisions in regard to policies. He said they will need to give some thought to how they are going to have an ongoing plan for investment education.

Mr. Dear said that he believes the Board first needs a program that helps bring new members up to speed, and agreed that we shouldn't be paying twice for it. He said the workshop is a component of a larger Board education undertaking. He noted that the first item on the agenda is Board education policy. This will be developed by the Board members in the July workshop.

Ms. Prielipp suggested that the investment seminar be broken up into two three-hour segments. Mr. Murphy agreed and said he would prefer three hours in the afternoon, and three the next morning.

Mr. Kaminski asked if they couldn't determine how they will do investment education in a much shorter formal session. He suggested there are many other ways to pick up information on investments, and they could take advantage of other companies to offer training.

The Committee members then discussed whether April or May would be better to have the investment seminar because the Legislature will still be in session in April.

Mr. Dear said he will poll the members to find the best dates in March, April or May.

There being no further business to come before the committee, the meeting adjourned at 9:15 a.m.