

WASHINGTON STATE INVESTMENT BOARD

Administrative Committee Meeting Minutes

April 17, 2003

The Administrative Committee met in open session at 8:46 a.m. at the Washington State Investment Board (WSIB) 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
 Glenn Gorton

Others Present: Joe Dear, Executive Director
 Sue Hedrick, Executive Assistant
 Gary Bruebaker, Chief Investment Officer
 Les Brodie, Acting Deputy Director for Operations
 Beth Vandehey, Internal Auditor
 Diana Will, Investment Officer
 Steve Verschoor, Investment Accounting Controller
 Jeff Lane, Senior Assistant Attorney General

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

ADOPTION OF MINUTES – MARCH 20, 2003

Ms. Prielipp moved to adopt the Board minutes of March 20, 2003. Mr. Masten seconded the motion.

The motion carried unanimously.

DIRECTOR UPDATE ON BUDGET AND STAFFING

Mr. Dear gave an update on the WSIB's budget. He said he expects to end the biennium with a surplus of \$350,000, which includes the cut the agency took in the supplemental budget last year. The surplus is due primarily to vacancies; currently, seven and a half positions are vacant. The plan is to fill three of the four investment officer positions and one in Operations, the Financial Manager position that will open up at the end of May with Sandra Joudrey's retirement.

The cost of the building move went over budget by \$1,500 because of a new phone system, but the agency made \$21,000 selling surplus furniture. The agency's original 2003-2005 budget request was reduced by the Governor's Office by \$516,000. The Senate reduced it by an additional \$516,000 for a total reduction of \$1,032,000. The FTE reduction went from 2.3 in the

Governor's budget to 4.6 in the Senate budget. Mr. Dear pointed out that whatever saving comes from cutting the WSIB's budget will not benefit any other agency since the money does not come from the general fund. He said that yesterday, thanks to Representative Helen Sommers, the cuts were scaled back to \$100,000 and one FTE in the House version of the budget.

Mr. Dear said he has made similar requests to Senator West and is trying to meet with Senator Dino Rossi, the chair of the Senate Ways and Means Committee.

He also mentioned that Senator Rossi put \$100,000 in the WSIB's budget to help dispose of the Fircrest School in Seattle. Chair Charles commented that he hopes the Board can convince the Legislature to allow it to do its mission – investing money – rather than take on other special projects such as this.

Chair Charles asked about the positions on the Operations side. Mr. Dear clarified the lack of a need for an Assistant Director for Operations in addition to the Deputy Director for Operations position. He said the former position hasn't been filled since before he came on board and he doesn't see a need for it.

CAPITAL MARKET ASSUMPTIONS

Mr. Bruebaker reported on the Capital Market Assumptions. He said that, each year, they update the assumptions, which are used for any asset allocation studies conducted during that year. He said they are the critical building blocks for the strategic asset allocation modeling. They quantify the expected average annual return and risk levels over the long term. They evaluate the relationship or the correlation between the various asset classes. They are not meant to be short-term forecasts or to be used for tactical asset allocations. WSIB staff does a major asset allocation study of the Commingled Trust Fund (CTF) every four years. The last study was completed in November 2001.

Mr. Bruebaker said the key change from last year is a reduction of return in each of the asset classes other than real estate by 50 basis points. This reduction is largely due to the low federal funds rate and the effect it has on the base return of cash and fixed income securities. Real estate has been kept at the same level that was approved last year. The capital market assumptions will be used for asset allocation studies to be completed this year.

Mr. Bruebaker stated there are a number of individuals who are beginning to challenge modern portfolio theory. He suggested it might be educational to bring in investment professionals with other thoughts to share and hear from both sides to find out if there is a better way to operate the Fund. He recommended that, before staff does the next asset allocation for the Retirement Commingled Trust Fund, the Board should have a belief-challenging workshop to discuss modern portfolio theory, whether it's working or not and why.

Mr. Kaminski requested that staff look at what the asset allocation study would result in if private equity were split with Venture Capital as one asset class and Other Private Equity as another.

Mr. Masten moved that the Committee recommend the Board adopt the WSIB capital market return, risk and correlation assumptions. Ms. Prielipp seconded.

The motion carried unanimously.

VENDOR SELECTION PROCESS

Chair Charles summarized the vendor selection process for an administrative review of WSIB operations. Treasurer Murphy asked what the Committee is hoping to accomplish with the administrative review. Chair Charles said the goal is to review a process where the Board may have some liability on a sensitive issue, so the Board is able to show it has done its essential oversight and due diligence on activities, and then, if it is determined that the Board has fallen short in some areas, to have recommendations to see that it does not happen again in the future.

Ms. Prielipp moved that the Administrative Committee interview two firms that have responded to the RFPs, Miller & Miller and Public Knowledge. Mr. Masten seconded.

Treasurer Murphy asked again what the purpose of the administrative review is. Ms. Prielipp referenced the minutes of the last meeting, which stated that the purpose is to have an outside contractor look at policies and procedures to see that they are properly documented, effective controls are in place, and business is being conducted by following the highest standard of professional conduct.

The motion carried unanimously.

OTHER ITEMS

Ms. Prielipp asked about groups that contact Board members with concerns about companies the Board partners with. She asked if there is a Board policy for responding to these. She mentioned that the Colorado AFL-CIO had sent her a letter listing its concerns about the Board's involvement in Cherokee Investments. She said she thought it might be helpful, especially for new members, to clarify what the Board does or doesn't do in these situations.

Mr. Masten said he, too, was contacted by the AFL-CIO, specifically the Denver group, about Cherokee. A discussion then ensued about Cherokee Investments' practices.

Mr. Dear said that Cherokee improves environmentally-impaired property for resale. He said he hasn't received any information from either union. He suggested that staff could prepare a response for the members, or respond on their behalf.

Chair Charles suggested that items like these should go to the executive director who can then bring them to the Board. If the Board decides it wants to influence something, it should have the staff's involvement in and knowledge of this.

There being no further business to come before the Committee, the meeting adjourned at 9:25 a.m.