

WASHINGTON STATE INVESTMENT BOARD
Administrative Committee Meeting Minutes
March 15, 2007

The Administrative Committee met in open session at 8:33 a.m. in the boardroom at 2100 Evergreen Park Drive SW, Olympia, Washington.

Committee Members Present: Patrick McElligott, Chair
Glenn Gorton, Vice Chair
George Masten
Sandy Matheson
Dave Scott

Other Members Present: Mason Petit

Also Present: Joe Dear, Executive Director
Gary Bruebaker, Chief Investment Officer
Theresa Whitmarsh, Chief Operating Officer
Liz Mendizabal, Public Affairs Director
Celina Verme, Finance and Administrative Services Director
Kristi Haines, Executive Assistant

Paul Silver, Assistant Attorney General

[Names of other individuals attending the meeting are not included in the minutes, but are listed in the permanent record.]

Vice Chair Gorton called the meeting to order.

ADOPTION OF THE JANUARY 18, 2007, MINUTES

Mr. Scott moved to adopt the January 18, 2007, Administrative Committee meeting minutes. Mr. Masten seconded and the motion carried unanimously.

[Ms. Matheson and Chair McElligott arrived at 8:35 a.m.]

RESOLUTION ON SUDAN INVESTMENTS

Ms. Mendizabal introduced a proposed resolution on Sudan investments, developed after several meetings between WSIB staff, Representative Jim Moeller, and the Sudan Divestment Taskforce—a national activist group. The discussions led to an agreement that a resolution, rather than legislation, is the best course of action. Through the resolution, the WSIB retains its independent decision making authority and commits to constructively engage with companies in which it is invested that have provided significant revenue or other support to the government of Sudan.

Mr. Masten moved that the Administrative Committee recommend Board approval of the Resolution to ensure that Washington's pension investments are not used to support business and government activities linked to terrorism and genocide in Sudan. Mr. Scott seconded and the motion carried unanimously.

OPERATING BUDGET BRIEFING

Ms. Whitmarsh said the WSIB's operating budget is comprised of appropriated and non-appropriated funds. As noted by Mr. Dear during his presentation last June, the appropriated budget represents only three percent of total WSIB expenditures. Investment expenses are paid through investment earnings and classified as non-appropriated funds, which have not been included in staff's budget submittal to the Board for review and approval. A complete budget including both categories of funds will be presented at the June Administrative Committee and Board meetings. The presentation is intended to educate the Committee on the budget building process and some of the challenges encountered in building a budget for non-appropriated expenses.

Ms. Verme reported that the WSIB's total proposed annual budget equates to less than 42 basis points of the total assets under management. She noted that the appropriated budget represents three percent of the total operating costs. Ms. Verme reviewed the appropriated budget cycle, which is subject to approval by the Board, the Office of Financial Management (OFM), Governor, and Legislature. The appropriated budget covers normal agency operations, including salaries, facilities, travel, supplies, rent, utilities, employee training, and other state agency services. Ms. Verme said the non-appropriated budget process is similar to the appropriated budget process, but does not require external approval. Non-appropriated expenses are subject to OFM oversight and reviewed by the State Auditor's Office.

Ms. Verme reported that staff made enhancements to the chart of accounts and modified the investment accounting system to enable better monitoring of non-appropriated expenses, as well as capturing netted and partnership fees. She emphasized that potential asset allocation changes, management style shifts, non-linear asset growth, market volatility, and varying consulting and legal needs make forecasting difficult. Ms. Verme described the non-appropriated budget categories, which align with the Cost Effectiveness Measurement (CEM) survey and allow the WSIB to benchmark itself against other funds. She reiterated that CEM's recent survey revealed that WSIB fees are lower than peers, and determined this was due to less external management and paying less for services.

Mr. Dear said he hoped the presentation adds perspective to how the WSIB compares against other funds despite its higher allocation to real estate and private equity and resulting program costs. It is important for the Board to approve a complete budget. Mr. Dear pointed out that any reduction to non-appropriated expenses would take time due to the length of partnership agreements.

Ms. Whitmarsh explained that some information technology expenses, such as the data warehouse and risk analytics, are classified as investment research and paid for out of the non-appropriated budget, and subject to oversight by the Department of Information Services. Investment consulting fees are also paid by non-appropriated funds.

Ms. Matheson complimented staff's efforts in documenting the non-appropriated funds and stressed the importance of visibility.

ASSISTANT ATTORNEY GENERAL'S REPORT

Mr. Silver provided an update on the WorldCom and Enron litigations. The WSIB will receive \$57,694 of a \$1.1 million additional recovery received from former WorldCom chief executive officer Bernie Ebbers.

The Enron trial is set for April 16, unless the federal court of appeals rules that the case cannot be tried as a class action. Settlements to date total \$75 billion. If the trial is finished or settles this year, an additional distribution of \$7 billion will begin.

OTHER ITEMS

There was no further business to come before the Committee and the meeting adjourned at 9:00 a.m.