

WASHINGTON STATE INVESTMENT BOARD
Administrative Committee Meeting Minutes
December 20, 2007

The Administrative Committee met in open session at 8:04 a.m. in the boardroom at 2100 Evergreen Park Drive SW, Olympia, Washington.

Committee Members Present: Glenn Gorton, Chair
Sandy Matheson, Vice Chair
Mason Petit
Dave Scott (via teleconference)

Other Members Present: George Masten

Absent: Patrick McElligott

Also Present: Joe Dear, Executive Director
Gary Bruebaker, Chief Investment Officer
Liz Mendizabal, Public Affairs Director
Theresa Whitmarsh, Chief Operating Officer
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.]

Chair Gorton called the meeting to order.

ADOPTION OF THE NOVEMBER 15, 2007, MINUTES

Vice Chair Matheson moved to adopt the November 15, 2007, Administrative Committee meeting minutes. Chair Gorton seconded and the motion carried unanimously.

2008 STRATEGIC PLAN

Mr. Dear introduced the 2008 Strategic Plan, which reflects the Board's request at the July retreat for a five-year view on organization strategy. He said that some elements of the plan will take more than one year. These are identified as strategic initiatives, and one-year elements are listed as tactical initiatives.

Mr. Dear reviewed current WSIB strengths, including its skillful Board and top performance. Mr. Dear said that concerns looking forward include highly uncertain market conditions; investment officer compensation; and staffing, processes, and technology that will not be adequate in five years.

Mr. Dear reviewed the strategic framework, which balances providing value, obtaining support, and increasing capacity. This framework rests on the foundation of a skillful Board. His presentation covered the strategic and tactical initiatives for each of the three areas. Vice Chair Matheson observed that the Department of Retirement Systems (DRS) was not specifically noted in the WSIB's support initiative. Mr. Dear agreed to amend the plan to include DRS, as well as others.

[Mr. Scott was in attendance via teleconference at 8:27 a.m.]

Staff will continue its work to equip the Board in its leadership role in an increasingly complex environment. The focus will be on strategic planning, education sessions, and application of investment beliefs.

Vice Chair Matheson moved that the Administrative Committee recommend that the Board approve the 2008 Strategic Plan. Mr. Petit seconded and the motion carried unanimously.

AGENCY REQUEST LEGISLATION

Mr. Dear gave an update on activities involving the agency request legislation, and briefed members on two potential proposals surfacing on Iran divestment and taping of executive sessions.

The Board approved submission of agency request legislation in November, which changes the investment officer salary statute by removing the five percent limitation, clarifying use of non-appropriated funds for retention and incentive compensation, and including endowments in the biennial peer survey of similarly-sized public funds. Staff submitted the agency request legislation to the Office of Financial Management (OFM) as a matter of practice, not policy, to gain support of the Governor's Office. Staff then met with OFM Director Victor Moore to discuss concerns relating to the incentive pay and non-appropriated fund elements of the WSIB's submission. Mr. Seely attended this meeting with staff and successfully persuaded Director Moore to support the incentive pay element of the agency request legislation. OFM's concern with using non-appropriated funds was based on policy and technical operational issues. OFM suggested use of a budgeted, non-appropriated procedure, which requires the WSIB to submit a budget that is subject to the OFM allotment process, but does not need legislative approval. The monies would be for recruitment, retention, and incentive purposes and subject to public reporting. The budgeted, non-appropriated process subjects the WSIB to administrative review by OFM, but benefits the WSIB by providing flexibility in its use. OFM's intent is to run a good budget process, not to run the WSIB's compensation program. Mr. Dear said that he believed the endowment piece would be problematic based on a limitation to local funds, so staff voluntarily removed that element of the agency request legislation. OFM supports removal of the five percent limitation and reserving the current survey universe. Mr. Dear believes and repeated Senator Brown's remark that incremental changes are more likely to succeed during a short legislative session.

Vice Chair Matheson moved that the Administrative Committee recommend that the Board authorize the executive director to seek legislative sponsorship, negotiate, and further refine language as needed to gain passage of the agency request legislation. Chair Gorton seconded the motion.

Mr. Petit noted a concern that the incentive monies will be a known number and morale could suffer if bonuses are not granted for any reason, including performance. He hopes that the Board's long-term investment perspective can be incorporated into compensation practices.

Ms. Whitmarsh noted that the Board would have the opportunity, if the legislation passes, to design an investment officer compensation program that takes the Board's concerns into consideration. It would have the assistance of the WSIB human resource director and a compensation consultant hired for the Board, who would be familiar with these compensation design issues from experiences with other similar organizations.

Vice Chair Matheson said that Board action provides an ability to design a program and to adopt a good program, but would not require adopting a bad plan. Mr. Dear noted that design questions are really important. Mr. Petit cautioned that the Board move forward with a lot of care in developing its program if approved by the Legislature.

The above motion carried unanimously.

Ms. Mendizabal said that an Iran divestment initiative has surfaced and staff has a meeting on January 7 with some of the major players involved in the effort. The group is willing to seek a non-legislative approach and staff will work with them to reach the same outcome as was made possible by the Sudan resolution. She reported that some legislators are looking at the issue, but have indicated they would also be willing to work and support a non-legislated solution. The Committee discussed recent actions by the federal government to allow public pension funds to act independently on divestment issues.

Mr. Dear said that Treasurer Murphy brought to his attention an initiative regarding taping executive sessions, which was the subject of a recent editorial in *The Olympian*. The Attorney General is seeking feedback on the issue and staff is looking at how the WSIB could be affected. Staff may come back to the Board to see if it wants to take a position on the issue. Mr. Dear said that Treasurer Murphy, who is one of the biggest supporters of open meetings, opposes the initiative and asked that it be brought to the Board's attention. Vice Chair Matheson said she opposes taping executive sessions as she believes it would dampen the thought process. She said that broad-based discussions are needed and restricted discussion is counterproductive.

Mr. Masten said that he hopes the Attorney General and the State Auditor proceed with and succeed in passing this initiative as he believes that possible misuse of the executive sessions statute has occurred at some public meetings.

Mr. Petit said he believes taping executive sessions could kill candidness and the fallout from such an initiative could affect other conversations.

EXECUTIVE DIRECTOR EVALUATION PROCESS

Chair Gorton introduced changes to the executive director evaluation process. Mr. Dear said that he asked the human resource director to look at the evaluation form and process used last year and recommend improvements based on industry best practices. Suggestions were to make slight modifications to some questions and add a question on achieving key initiatives of the strategic and investment plans. Other suggested process modifications include anonymous input of staff reporting directly to the executive director (which occurred two years ago but was removed from last year's process) and requires the executive director to prepare a self-evaluation.

The Committee discussed how to word the motion. The executive director and Chair Gorton discussed timelines for receiving evaluation feedback so the actual evaluation could be conducted at the January Administrative Committee and Board meetings.

Mr. Petit moved that the Administrative Committee forward the revised evaluation form to the Board. Vice Chair Matheson seconded the motion.

There were no objections to the revised executive director evaluation process.

The above motion carried unanimously.

ASSISTANT ATTORNEY GENERAL'S REPORT

Mr. Silver provided an update on the Enron class action litigation. A proposed allocation plan was filed with the court and a preliminary hearing held. There were three sets of objections filed and two of those have been satisfied. The court is currently being briefed on the third set of objections. Final approval of the plan is anticipated on February 28 and notices of the claims' process would then be sent to class members. The proposed plan treats claims such the WSIB's favorably and there is potential to recover a significant amount of the estimated \$92 million in bond losses. Investment managers, such as Barclays Global Investors, will file any stock loss claims and return any recoveries to commingled funds. An attorneys' fee request was also filed with the court. The Regents of the University of California, as lead plaintiff, agreed to a fee of about 9.5 percent to the Coughlin Stoia law firm.

OTHER ITEMS

There was no further business to come before the Committee. The meeting adjourned at 9:11 a.m.