

WASHINGTON STATE INVESTMENT BOARD
Administrative Committee Meeting Minutes
April 17, 2008

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: Glenn Gorton, Chair
Sandy Matheson, Vice Chair
George Masten
Patrick McElligott
Mason Petit

Other Members Present: David Nierenberg
Mike Ragan

Also Present: Joe Dear, Executive Director
Gary Bruebaker, Chief Investment Officer
Theresa Whitmarsh, Chief Operating Officer
Teresa Eckstein, Human Resources Director
Kristi Haines, Executive Assistant

Paul Silver, Assistant Attorney General
Russ Kuhns, R.V. Kuhns and Associates, Inc.
Jessica Reese, R.V. Kuhns and Associates, Inc.

[Names of other individuals attending the meeting are listed in the permanent record.]

Chair Gorton called the meeting to order.

ADOPTION OF THE FEBRUARY 21, 2008, MINUTES

Mr. McElligott moved to adopt the February 21, 2008, Administrative Committee meeting minutes. Mr. Petit seconded, and the motion carried unanimously.

REQUEST FOR QUALIFICATIONS AND QUOTE – BOARD CONSULTANT

Mr. Dear reported that, at the February meeting, Vice Chair Matheson, Mr. Nierenberg, and Mr. Kaminski suggested the Board engage a consultant to examine Board decision-making and other governance processes. Staff circulated a draft scope of work and subsequent discussions resulted in a proposed Request for Qualifications and Quotes (RFQQ) for the Committee's consideration.

Mr. Nierenberg spoke in support of the RFQQ. He believes it would be worthwhile for the Board to examine how it spends its time. He believes that boards should be deliberative bodies,

thinking about strategy, policy, and risk, and routine matters might be better handled by others. Mr. Nierenberg commented on strategies he has shared with the Board in the past that are now in place, and his current thoughts on issues and areas he would like the Board to explore.

Mr. Nierenberg relayed that Vice Chair Matheson had suggested Charley Ellis as a speaker at this year's retreat. Mr. Ellis is a respected author, consultant to large institutional investors, and investor. Mr. Nierenberg suggested that the Board consider him as its consultant. Vice Chair Matheson said Mr. Ellis is an excellent speaker, with the ability to discuss things at a fundamental level. She commented it would be great to find a board consultant of his caliber. Mr. Dear said that staff recommends using the RFQQ process for the procurement.

Vice Chair Matheson moved that the Administrative Committee recommend the Board approve the release of the RFQQ. Chair Gorton seconded the motion.

The motion failed, with Messrs. Masten, McElligott, and Petit voting no.

INVESTMENT OFFICER COMPENSATION STUDY

Ms. Whitmarsh introduced the biennial investment officer compensation study. The Board has authority to establish compensation levels for the executive director, confidential secretary, and investment officers. Its statute specifies that investment officer compensation is limited to the average of state funds of similar size based on a biennial survey. R.V. Kuhns has conducted the past two surveys for the WSIB, and will present the current survey results. Ms. Whitmarsh clarified the recommended salary ranges are based on the Board's current statute. The new compensation law passed this legislative session takes effect June 12. It requires the Board to develop a performance management system, and staff would bring recommendations relative to actions needed to implement the system to the June Administrative Committee and Board meetings.

Ms. Reese described R.V. Kuhns' process, which included a review of past surveys performed for the WSIB. The current survey request was sent to 18 public pension funds with assets over \$30 billion. Fifteen of the 18 funds responded and are included in the analysis. The survey included salary and bonus data, experience statistics, and current job descriptions. R.V. Kuhns compiled and analyzed the data received, and reported the results both without and with cost of living adjustments based on the national average and for Olympia, which is 11.8 percent above the national average.

R.V. Kuhns' report provides median salary, average salary, median top of range, and average top of range salary data. Ms. Reese clarified the results include base salary only, although incentive compensation is charted within the report along with base salaries to display total compensation levels. Ms. Eckstein said the WSIB's current statute did not allow for incentive pay to be considered in this study.

Mr. Kuhns reviewed a performance analysis of funds with over \$30 billion in assets for the fiscal year ended June 30. Eleven of the 15 funds participating in the salary survey also reported on

performance. Overall, the median return of the 87 participating funds in the performance analysis was 17.6 percent. Larger funds returned 19.1 percent.

The report shows the WSIB had the third highest performance over a three-year period, and was also a top performer for the one-, five-, and ten-year periods. Mr. Kuhns believes the WSIB has performed well due to its excellent staff and Board and due to its asset allocation, which is progressive in alternative and real estate investments compared to other funds. He noted all WSIB asset classes have met or exceeded benchmarks. The WSIB annualized return versus standard deviation is in the high return/low risk quadrant. Mr. Masten asked Mr. Kuhns to provide details on another fund within the high return/low risk quadrant.

Ms. Eckstein reviewed the Investment Officer Proposed Salary Ranges chart, which details salary ranges adopted by the Board in 2006, current investment officer salary ranges, and the new proposed ranges. In 2006, staff recommended a 41 percent salary range to be consistent with ranges used within the state's Washington Management Service and Exempt Management Service compensation programs. This year, staff has rounded the recommendation range to 40 percent to provide a smooth progression between the Assistant Investment Officer and Investment Officer ranges. The 40 percent range also provides flexibility, breadth, and latitude to set salaries on factors such as years of experience. The proposed compensation levels are based on the average top of range for each investment officer classification surveyed, with the bottom of the range set 40 percent below that.

Mr. McElligott moved that the Administrative Committee recommend the Board adopt the new proposed salary ranges for Investment Officers.

<u>Job Classification</u>	<u>New Range</u>
Assistant Investment Officer	\$57,259 - \$80,163
Investment Officer	\$82,682 - \$115,755
Assistant Senior Investment Officer	\$114,071 - \$159,700
Senior Investment Officer	\$154,599 - \$216,439
Chief Investment Officer	\$226,075 - \$316,505

Mr. Petit seconded, and the motion carried unanimously.

BOARD TRAVEL POLICY 2.00.260 REVISION

Chair Gorton said the proposed Board Travel Policy 2.00.260 revision is based on past Committee discussions relating to Board travel outside the contiguous 48 states.

Mr. Masten moved not to recommend adoption of the policy revision.

Mr. McElligott moved to recommend adoption of the policy revision.

Mr. Petit seconded the motion made by Mr. Masten.

Mr. Masten said he thinks the revisions are not needed and prefers to leave the policy as is.

**The motion not to recommend Board adoption of the Board Travel Policy
2.00.260 revision carried, with Vice Chair Matheson voting no.**

SUDAN RESOLUTION ANNUAL REPORT

Mr. Dear said the Sudan Resolution Annual Report was provided as an information item. There were no questions from the Committee.

ASSISTANT ATTORNEY GENERAL'S REPORT

Mr. Silver had nothing to report

OTHER ITEMS

There was no further business to come before the Committee and the meeting adjourned at 9:13 a.m.