

WASHINGTON STATE INVESTMENT BOARD
Administrative Committee Meeting Minutes
May 1, 2008

The Administrative Committee met in open session at 10:52 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 (via teleconference)

Other Members Present: Charlie Kaminski
John Magnuson
David Nierenberg (via teleconference)
Mike Ragan
Representative Helen Sommers

Also Present: Joe Dear, Executive Director
Gary Bruebaker, Chief Investment Officer
Theresa Whitmarsh, Chief Operating Officer
Bill Kennett, Senior Investment Officer – Fixed Income
Phil Paroian, Senior Investment Officer – Public Equity
Tom Ruggels, Senior Investment Officer – Private Equity
Diana Will, Senior Investment Officer – Asset Allocation
Kristi Haines, Executive Assistant

Paul Silver, Assistant Attorney General

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

Chair Gorton called the meeting to order.

ADOPTION OF THE APRIL 17, 2008, MINUTES

Mr. McElligott moved to adopt the April 17, 2008, Administrative Committee meeting minutes. Chair Gorton seconded, and the motion carried unanimously.

FIVE-YEAR PLANNING DISCUSSION

Mr. Dear introduced the five-year planning discussion. He said the goal is to engage in discussion about what the WSIB may look like in five years. Staff hopes to gain the Board's perspectives in order to develop a budget for the 2009-2011 biennium. He said the budget

process lends itself to incremental thinking and staff wishes to gain a broader understanding of the Board's thought processes on organizational structure and strategies it would like to pursue over a five-year period.

Mr. Dear introduced questions for consideration in strategic choices including: (1) Should the WSIB add new investment strategies to reduce portfolio risk, improve returns, and continue early mover advantage; (2) What are the portfolio and strategy implications of demographic changes and differential growth rates between developed and emerging markets; (3) How to assure the WSIB maintains investment discipline during periods when the portfolio underperforms relative to its benchmark and peer public pension funds; (4) How to make risk management the central focus of investment and operation decisions; (5) How to ensure that quality of staff is maintained; and, (6) How to maintain quality decision-making during times of Board turnover?

Mr. Bruebaker led a discussion on broadening the reach of asset classes. Members agreed that the WSIB should maintain its disciplined investment approach. We should take advantage of demographic and economic growth in emerging markets, while being mindful of the potential of increased short-term volatility and greater exposure to political risk. Members debated investing in smaller deals and agreed that staff should look opportunistically at smaller transactions in any of the asset classes, but not move away from core strategies. Also, these smaller deals should have the potential to grow to a meaningful size in the future. In response to a question, Mr. Bruebaker noted that staff is currently conducting a currency exposure evaluation at the portfolio level and should be completed this year.

[Mr. Nierenberg was no longer in attendance at 11:58 a.m.]

[Mr. McElligott left the meeting at 12:14 p.m.]

[The Committee recessed at 12:22 p.m., and reconvened in open session at 12:48 p.m.]

Ms. Whitmarsh led a discussion on deepening insight and oversight of the risk management, research, compliance, audit, investment accounting, portfolio administration, and information technology programs. Staff believes that infrastructure should be built out to ensure risk is well understood and tools should be developed to help provide oversight in the investment decision-making process. Vice Chair Matheson and Mr. Kaminski said they prefer to describe risk as *a* central consideration, rather than *the* central consideration.

The members supported the concept of creating a strategic research advisory council. Ms. Whitmarsh described how the data warehouse system will support risk analysis and research processes. Mr. Magnuson commented that the quality of data is critical; it has to be useful in making investment decisions.

[Mr. Ragan left the meeting at 12:55 p.m.]

[Vice Chair Matheson left the meeting at 1:27 p.m.]

Mr. Dear said that expanding the corporate governance program is an opportunity to interact within the industry in ways that can affect change in federal regulations and corporate performance. Members shared their interest in expanding slowly and carefully, considering the costs of involvement, and being mindful of other shareowners' viewpoints.

Mr. Dear said staff will incorporate the member's advice and perspectives into a budget proposal that will be brought back to the June Committee and Board meetings.

Mr. Kaminski thanked staff for providing the framework for the Board's comment.

ASSISTANT ATTORNEY GENERAL'S REPORT

Mr. Silver had nothing to report

OTHER ITEMS

There was no further business and the Committee adjourned at 1:44 p.m.