WASHINGTON STATE INVESTMENT BOARD
Administrative Committee Meeting Minutes
June 19, 2008

The Administrative Committee met in open session at 8:20 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:	Charlie Kaminski John Magnuson Bob Nakahara (via teleconference) David Nierenberg (via teleconference) Mike Ragan
Also Present:	Joe Dear, Executive Director Gary Bruebaker, Chief Investment Officer Theresa Whitmarsh, Chief Operating Officer Celina Verme, Finance and Administrative Services Director Teresa Eckstein, Human Resources Director Kristi Haines, Executive Assistant Brian Buchholz, Assistant Attorney General Steve Dietrich, Assistant Attorney General

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

Chair Gorton called the meeting to order

ADOPTION OF THE MAY 1, 2008, MINUTES

> **Mr. McElligott moved to adopt the May 1, 2008, Administrative Committee meeting minutes. Vice Chair Matheson seconded, and the motion carried unanimously.**

Chair Gorton announced a change in agenda order.

BOARD SELF-EVALUATION PROCESS

Chair Gorton asked for comment on the Board's self-evaluation process. Mr. McElligott said an informal discussion of performance and risk, along with areas the Board is comfortable with, has taken place at the annual retreat in the past.

[Messrs. Petit and Masten arrived at 8:23 a.m.]

Chair Gorton suggested the Board conduct a process similar to what is done for the executive director's evaluation. He proposed that members submit questions to develop a self-evaluation form for distribution and comment at the July meeting, and conduct a subsequent discussion at the September meeting. Mr. McElligott spoke in support of a more formal process. Chair Gorton requested comment from the Committee on developing a better process.

[Mr. Ragan arrived at 8:24 a.m.]

Mr. Dear said, in the past, the Board has held a closed session annually at its retreat to discuss performance. Vice Chair Matheson proposed developing evaluation questions using samples from other boards. She is interested to see what other practices are in place. Mr. Masten said he prefers to continue the past informal method. He said it lends itself to a more conduct-related discussion, rather than policy. Mr. McElligott suggested that formal questions could help to initiate conversation. Mr. Petit said he is interested to learn what other standards exist and have the Board consider any practices that could improve its process. Chair Gorton said the Board would continue the discussion at the July meeting and work from that.

2009-2011 BIENNIAL BUDGET AND SIX-YEAR RESOURCE PLAN

Mr. Dear introduced the 2009-2011 biennial budget and six-year resource plan, which was developed using themes from the strategic framework and discussion from the May 1 Administrative Committee meeting. Resulting conclusions are that the WSIB should: (1) add or extend investment strategies in emerging markets, tangible assets, and active equity and fixed income; (2) look opportunistically at smaller deals, but not move away from core strategies; (3) consider new opportunities that have the potential to scale; (4) strengthen its disciplined investment approach by improving Board education, staff development, risk management, research and analytics; (5) assure technical systems and functions support investment programs; (6) create a research advisory council; and, (7) expand the corporate governance program slowly and carefully.

Mr. Dear said the WSIB budget is divided into four themes: sustain excellent investment performance, enhance risk management and control, strengthen technology infrastructure, and align organizational capacity. The challenge is to develop a resource plan that achieves the 8 percent return objective in a complex and competitive environment, entering into a time period of lower returns. Vice Chair Matheson observed that the budget strategies and resource plan is intended to maintain the 8 percent return which is really important, not just "nice to have." Mr. Dear said the budget numbers are driven largely by programs already in place and the support needed to ensure they are properly overseen.

A discussion ensued on the investment strategy of tangible assets, which staff believes will serve as a risk diversifier that will produce a stable income stream and generate better returns than fixed income.

Mr. Dear reviewed the budget implications. Over the six years, 28 full time equivalents (FTEs) are requested for the programs that help to sustain excellent investment performance: 3 for the Asset Allocation and Portfolio Risk Management, 8 for Public Equity, 3 for Private Equity, 2 for Fixed Income, 4 for Real Estate, 6 for Tangible Assets, 1 for Research, and 1 for Corporate Governance.

Vice Chair Matheson observed the large growth within Public Equity. Mr. Dear said the projection takes into consideration new markets and strategies, increased oversight of existing relationships, and enhanced data and analytic systems. Mr. Bruebaker said staff is researching the potential to take advantage of existing private equity relationships to create a marketable alternatives program. Mr. Dear said that staffing would not be included in subsequent budgets if new programs are not approved to move forward.

Vice Chair Matheson commented that the Board should ensure cross-coverage in Private Equity to ensure adequate staff monitoring of the increasing allocation. Mr. Dear agreed that a key ratio is the number of relationships per investment officer, which staff anticipates will grow by two to five relationships per year. Mr. Dear said the workload increase for Real Estate is also driven by relationships, but there is also a need to develop a data integrator and analytics tool similar to what Capital Dynamics has for Private Equity. The data is needed to populate the risk database to assess overall portfolio risk. Mr. Bruebaker said that Tangible Assets requires additional FTEs because due diligence is labor intensive.

Mr. Dear described the budget implications for enhanced risk management and control. Over the six years, 5 FTEs are requested for Risk Analysis and Reporting, and Compliance and Internal Audit. To strengthen the technology infrastructure for the risk system and analytics service, 5 FTEs are requested. For investment operations and agency infrastructure to align organizational capacity, 14.5 FTEs are requested: 3 for Investment Accounting, 1 for Portfolio Administration, 1 for Performance Reporting, 1 for Human Resources, 4 for Information Systems, 3 for Finance and Administrative Services, and 1.5 for the Internship Program.

Mr. Dear detailed the incremental staffing within the programs for each of the three biennia included in the resource plan. He acknowledged the considerable FTE increase, but maintained that the proposed additions are driven by decisions already made. Mr. Dear said that baseline information requested by Mr. Nakahara was distributed as a handout. If approved, staff would take the proposal forward to the Office of Financial Management and Legislature. If the budget is not approved, staff would need to shift expenses to the non-appropriated budget.

[Mr. Magnuson arrived at 9:21 a.m.]

Staff is seeking Board approval of the 2009-2011 appropriated budget request as detailed on pages 29 and 30 of the presentation materials. Ms. Verme noted placeholder estimates within the budget request for investment officer incentive compensation, noting that numbers will change based on the achieved performance.

Staff also seeks Board approval of the Fiscal Year 2009 non-appropriated budget, the bulk of which is comprised of investment management and investment consulting fees. Mr. Masten shared his concern with the visibility of the non-appropriated budget. He is also bothered that there are items within the non-appropriated budget that neither are known to nor acted upon by the Board, such as organizational memberships and research service fees.

[Mr. Nakahara was in attendance via teleconference at 9:29 a.m.]

Mr. McElligott moved that the Administrative Committee recommend that the Board approve the proposed appropriated budget for the 2009-2011 biennium and the non-appropriated budget for Fiscal Year 2009. Mr. Petit seconded, and the motion carried unanimously.

REQUEST FOR QUALIFICATIONS AND QUOTATIONS – INVESTMENT OFFICER COMPENSATION CONSULTANT

Ms. Whitmarsh reported that the revision to the Board's investment officer compensation statute approved last Legislative session provides for the Board to develop guideline policies for incentive compensation. Staff has developed a Request for Qualifications and Quotations (RFQQ) to assist the Board to engage a consultant who would help to create and implement a performance management and compensation program. Services would include advising the Board on an appropriate peer universe to survey, evaluating investment manager and investment operations positions for appropriate compensation and salary ranges, and establishing compensation criteria for base pay and incentive compensation.

[Mr. Kaminski arrived at 9:33 a.m.]
[Mr. Nierenberg was in attendance via teleconference at 9:35 a.m.]

Ms. Whitmarsh asked for Board guidance on conducting the evaluation and interview selection, if the RFQQ is approved. Staff is seeking member volunteers. Mr. Dear emphasized the RFQQ would not be limited to consultants that staff is aware of, but would be distributed on a broad basis through its standard procurement process.

Mr. McElligott moved that the Administrative Committee recommend that the Board approve the release of the Investment Officer Compensation RFQQ. Mr. Petit seconded, and the motion carried with Mr. Masten voting no.

ASSISTANT ATTORNEY GENERAL'S REPORT

Mr. Dear introduced Mr. Dietrich, the WSIB's new Assistant Attorney General who will assist Mr. Buchholz.

OTHER ITEMS

There was no further business to come before the Committee and the meeting adjourned at 9:37 a.m.