

WASHINGTON STATE INVESTMENT BOARD
Administrative Committee Meeting Minutes
January 21, 2010

The Administrative Committee met in open session at 8:32 a.m. in the boardroom at 2100 Evergreen Park Drive SW, Olympia, Washington.

Committee Members Present: Patrick McElligott, Chair
Treasurer Jim McIntire, Vice Chair
Steve Hill
George Masten
Mike Ragan

Other Members Present: David Nierenberg
Mason Petit

Also Present: Theresa Whitmarsh, Executive Director
Gary Bruebaker, Chief Investment Officer
Liz Mendizabal, Public Affairs Director
Steve Lerch, Research Director
Bill Kennett, Senior Investment Officer – Fixed Income
Phil Paroian, Senior Investment Officer – Public Equity
Kate Sandboe, Corporate Governance Director
Kristi Haines, Executive Assistant

Steve Dietrich, Assistant Attorney General

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

Chair McElligott called the meeting to order.

ADOPTION OF THE DECEMBER 17, 2009, MINUTES

Mr. Masten moved to adopt the December 17, 2009, Administrative Committee meeting minutes. Mr. Ragan seconded, and the motion carried unanimously.

STRATEGIC PLAN

Ms. Whitmarsh introduced the proposed 2010 Strategic Plan. The plan is developed using a strategic framework of three core areas: *Value*, *Support*, and *Capacity*. The WSIB defines *Value* as what it will do to ensure we deliver exceptional returns; *Support* is how WSIB conducts itself within the marketplace and with stakeholders to receive support for its mission; and *Capacity* is how WSIB builds out the organization to execute plans and programs. The framework rests upon a foundation of an engaged and skillful Board. Each year, staff develops strategies in the three core areas. The Board approves the general direction of the Strategic Plan, and then staff develops detailed projects to implement the Plan.

[Mr. Hill arrived at 8:35 a.m.]

Ms. Whitmarsh reviewed the six-year plan goals and budget themes approved by the Board in June 2008, which would have significantly built out the organization. The Legislature approved 8 FTE in the 2009-2011 biennial budget. This was half of the FTEs requested, but very generous given the economic environment. Staff plans to develop a new resource plan to submit for Board approval in June with the next biennial budget. The plan will include themes derived from the 2009 off-site planning session and Board members' expressed interest in risk, staffing, corporate governance, and WSIB branding efforts. Ms. Whitmarsh reviewed accomplishments from the 2009 Strategic Plan within the three core focus areas.

Value

The portfolio concentration risk analysis and performance attribution 2009 initiatives will continue into 2010. Strategic investment initiatives for 2010 include reviewing investment options with the Department of Retirement Systems (DRS), conducting asset allocation studies for the permanent funds and Developmental Disabilities Endowment Fund, and developing Labor and Industries' funds' investment beliefs. Tactical investment initiatives include implementation and development of the 2010 and 2011 investment plans for Public Equity, Private Equity, Real Estate, and Tangible Assets; investment manager/consultant searches; and examining investment expenses. Strategic research initiatives include moving from *ad hoc* to more strategic research that focuses on Board education and specific projects, and pension funding policy analysis. Strategic risk initiatives include exploring staff risk assumptions and tolerances, conducting a risk analytic system search, and implementing the real estate data aggregator.

Support

Strategic initiatives continuing from 2009 include collaboration efforts with international pension funds and exploring opportunities with U.S. institutional investors. Strategic support initiatives for 2010 include branding the WSIB as "smart money," reviewing member communication processes with DRS, exploring corporate governance opportunities with other institutional investors and selectively communicating on shareholder matters, and improving budget transparency.

Capacity

Strategic initiatives for 2010 include focusing on the WSIB as a destination employer; reviewing investment cash management; developing a governance model for third-party reliance within Operations and Investments; developing the Tangible Assets compliance program; technology projects involving the data warehouse, performance reporting, and accounting system of record; and developing the 2011-2013 budget.

[Treasurer McIntire arrived at 8:58 a.m.]

Strategic initiatives involving the Board during 2009 included a liquidity analysis; the Commingled Trust Fund (CTF) asset allocation study; establishing CTF investment beliefs; the off-site planning session; and annual planning sessions for Private Equity, Real Estate, and Public Equity. The Board received education sessions on private equity and hedging strategy research, emerging markets outlook, private markets valuations, ethics, United Nations Principles for Responsible Investments, and semi-annual state-of-the-economy presentations from Woody Brock. For 2010, initiatives include developing Board-level risk reports, reporting structures, and identifying appropriate risk discussion venues; and education on important topics surrounding the current economic climate. A proposed education sessions handout was distributed to members.

With regard to international pension fund collaboration efforts, Chair McElligott asked if staff is familiar with the Ontario Municipal Employees' Retirement System (OMERS) infrastructure program. Ms. Whitmarsh said staff is familiar with OMERS, which is fairly new to infrastructure but very solid in real estate. She indicated staff has not assessed partnering possibilities, but would seek out funds that are mission-driven with time horizons compatible with the WSIB's.

Mr. Masten complimented the proposed 2010 Strategic Plan. He feels the WSIB should remain focused on what it is good at, and not be too ambitious or aggressive with new areas that could stretch resources too thin. Mr. Hill concurred, and suggested that staff identify the most critical tasks and report back to the Board on focus areas.

Treasurer McIntire moved the Administrative Committee recommend the Board approve the 2010 Strategic Plan. Mr. Ragan seconded, and the motion carried unanimously.

IRAN/SUDAN RESOLUTIONS ANNUAL REPORT

Ms. Sandboe provided an annual report on staff's activities to identify companies within WSIB's portfolio conducting business in Iran and Sudan. The Board committed to active engagement efforts by adopting a Sudan Resolution in March 2007 and Iran Resolution in February 2008. The resolutions require that staff request companies to curtail or cease business activities with Sudan and Iran due to their acts of genocide and terrorism.

Staff communicated with four companies identified in the Fixed Income portfolio as having business operations in Iran. Two of the companies were subsequently removed from the portfolio. One company recently added to the portfolio was sent a letter in December 2009, which strongly encourages the CEO to either cease or convert to inactive business operations with Iran.

Staff also communicates annually with Public Equity fund managers requesting information on any investments in companies doing business in Sudan. This year, 12 of the 44 companies on the Genocide Intervention Network's "highest offender list" are held by WSIB managers.

Ms. Sandboe reported that both resolutions expired on January 1, 2010. Staff will bring updated resolutions to the February Administrative Committee meeting for review. Mr. Masten asked staff to rework the Board description within the Iran Resolution.

A discussion ensued about U.S. corporations headquartered outside the U.S. that may be doing business within Sudan and Iran, types of business operations, and the focus on identifying energy companies. Mr. Masten said he supports engagement efforts, and encouraged staff to thoroughly research corporations to ensure any heavily involved in business operations in Iran and Sudan are identified.

[Mr. Petit arrived at 9:20 a.m.]

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

Treasurer McIntire suggested staff ask State Street Global Advisors if they have alternative investments to consider replacing companies doing business in Iran and Sudan. Mr. Paroian explained that passive managers do not choose their investments since they hold the index, while some do offer custom products, managers would not be considered passive if the WSIB attempts to influence investment decisions.

Ms. Mendizabal said the issues raised by Mr. Masten and Treasurer McIntire are part of staff's ongoing discussions. Staff believes that active engagement with individual companies is the most effective way to voice the WSIB's concerns.

ASSISTANT ATTORNEY GENERAL'S REPORT

Chair McElligott announced the Committee would go into executive session to discuss litigation or potential litigation with legal counsel since public knowledge regarding the discussion is likely to result in an adverse legal or financial consequence to the WSIB. He said the executive session was expected to last about five minutes, at which time the Committee would reconvene in open session.

[The Committee went into executive session at 9:24 a.m. and reconvened in open session at 9:33 a.m.]

OTHER ITEMS

There was no further business to come before the Committee, and the meeting adjourned at 9:33 a.m.