

**WASHINGTON STATE INVESTMENT BOARD**  
**Administrative Committee Meeting Minutes**  
**February 18, 2010**

The Administrative Committee met in open session at 9:00 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  
Judi Owens  
Mason Petit  
Judy Schurke

Also Present: Theresa Whitmarsh, Executive Director  
Gary Bruebaker, Chief Investment Officer  
Liz Mendizabal, Public Affairs Director  
Steve Lerch, Research Director  
Phil Paroian, Senior Investment Officer – Public Equity  
Celina Verme, Finance and Administrative Services Director  
Kate Sandboe, Corporate Governance Officer  
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 JANUARY 21, 2010, MINUTES**

**Mr. Ragan moved to adopt the January 21, 2010, Administrative Committee meeting minutes. Mr. Masten seconded, and the motion carried unanimously.**

**BUDGET REPORT**

Ms. Verme presented the financial status report and end of fiscal year projections as of December 31, 2009. The report included appropriated and non-appropriated budgets.

[Mr. Petit arrived at 9:02 a.m.]

For the appropriated budget, Ms. Verme announced a projected Fiscal Year 2010 balance of \$1.1 million, or 7.8 percent savings. The projected balance represents a \$274,000 increase from the last quarter's projection, which was attributed mostly to not filling vacancies, and savings in goods and services, and travel. The WSIB continues exercising caution in the approval of expenses in response to the state's difficult budget situation.

Ms. Verme reported on three bills with fiscal impact recently signed by the Governor. HB 2921 extends the 2009 freeze on hiring, personal services contracts, equipment purchases, and out of state travel and training. The WSIB is exempted from this bill. HB 2998 suspends monetary performance-based awards for all employees. SB 6382 extends the salary increase freeze for exempt and WMS employees and suspends cash or cash equivalent awards in recognition of performance or longevity. All of these bills are effective through June 30, 2011.

For the non-appropriated budget, Ms. Verme announced a projected Fiscal Year 2010 balance of \$35.8 million, or 10.6 percent savings. She indicated the projected balance may vary depending on market volatility, asset values, investment contribution, distribution pace, and consulting needs.

### **PRIVATE EQUITY BACK OFFICE REQUEST FOR PROPOSALS**

Ms. Whitmarsh announced staff would issue the Private Equity Consultant Request for Proposals (RFP) the first week of March. During the last procurement, offerors were allowed to bid on front or back office services, or both. The current vendor, Capital Dynamics, provides for both front and back office services.

Due to the increased complexity of back office services, staff wants to issue one RFP, but contract separately for front and back office services. Ms. Whitmarsh said the same vendor could be selected for both; however, separate contracts allow the Board increased flexibility if a future change is needed as back office services require more transition time. The Board's Service Provider (Vendor) Selection and Ongoing Interaction Policy specifies that investment consultants are selected by the Board; and the Executive Director may select operational service providers. Staff would consider back office services an operational service; therefore, the selection approval would not come to the Board. Staff is considering the same process for the upcoming real estate consultant search, which could result in having one back office service provider for both asset classes. Ms. Whitmarsh said vendor selections would be detailed in her monthly Board report.

### **OTHER ITEMS**

Chair McElligott noted the Money Management Letter profile distributed to members, featuring Mr. Bruebaker.

Ms. Whitmarsh commented on a report issued today by the PEW Center on the States relating to the health of state retirement systems. Mr. Ragan said he heard a radio morning show, which implied some states are in trouble but did not specify that Washington is not among those.

Chair McElligott announced the Committee would go into executive session to evaluate the qualifications of an applicant for public employment. He said the executive session was expected to last approximately five minutes, at which time the Committee would reconvene in open session.

[The Committee went into executive session at 9:12 a.m., and reconvened in open session at 9:21 a.m.]

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

### **SUDAN RESOLUTION**

Ms. Sandboe presented a proposed update to the WSIB's resolution on Sudan investment. She noted revisions were made within the introduction, and to paragraph 3, which replaces "...seek

to avoid investments” with “...carefully monitor investments...” verbiage, which acknowledges that WSIB investment decisions need to be in the best interest of beneficiaries. Ms. Sandboe also combined Active Engagement Protocols paragraphs B and C, which were repetitive and could give the impression the WSIB wants or expects a manager to provide a Sudan-free fund. She said the proposed Sudan Resolution would expire on January 1, 2011; the same date as the WSIB’s current Iran Resolution.

Treasurer McIntire requested information on performance of funds that exclude Sudan investments compared to current fund investments, to provide a benchmark. Mr. Bruebaker said, over a five-year period, data shows Sudan-free funds underperformed funds without constraints, but the information is a snapshot of only one time period. He said staff would continue to compare such performance. Mr. Paroian said State Street had provided some data, which he would examine further and report back to Treasurer McIntire.

[Ms. Schurke arrived at 9:25 a.m.]

Mr. Bruebaker reminded the Board that one of its recently adopted investment beliefs is that constraints have a negative affect on investment returns. Staff will implement whatever policy the Board desires, but he suggested the Board may want to revisit its investment beliefs if it decides to make a change, for consistency purposes.

Mr. Paroian said managers like Washington’s approach to Sudan investments because it emphasizes active engagement with the company to influence change, while divestment has no affect.

A discussion ensued on possible rewording of the Sudan Resolution. Mr. Masten noted proposed changes to the language would restrict managers’ investment decisions. He proposed the Committee have further discussion before making a recommendation to the Board. Ms. Sandboe said she would continue active engagement activities as though the Sudan Resolution had not expired.

Chair McElligott agreed the matter should be postponed for further discussion at the April Administrative Committee meeting.

**Mr. Masten moved to table the motion. Mr. Ragan seconded, and the motion carried unanimously.**

There was no further business to come before the Committee, and the meeting adjourned at 9:35 a.m.