

WASHINGTON STATE INVESTMENT BOARD
Administrative Committee Meeting Minutes
April 15, 2010

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

Other Members Present: Richard Muhlebach
Bob Nakahara
David Nierenberg
Judi Owens
Mason Petit
Representative Sharon Tomiko Santos
Jeff Seely

Also Present: Theresa Whitmarsh, Executive Director
Gary Bruebaker, Chief Investment Officer
Liz Mendizabal, Public Affairs Director
Steve Lerch, Research Director
Kate Sandboe, Corporate Governance Officer
Shelley Hager, Human Resources Director
Kristi Haines, Executive Assistant

Steve Dietrich, Assistant Attorney General
Chris Murphy, McLagan Partners

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

Chair McElligott called the meeting to order.

ADOPTION OF THE FEBRUARY 18, 2010, MINUTES

Mr. Masten moved to adopt the February 18, 2010, Administrative Committee meeting minutes. Mr. Ragan seconded, and the motion carried unanimously.

[Treasurer McIntire arrived at 8:22 a.m.]

INVESTMENT OFFICER COMPENSATION PLAN DISCUSSION

Ms. Whitmarsh introduced the investment officer compensation plan discussion. She noted the presentation is for budget consideration only; investment officers are currently subject to a salary freeze, as are all exempt state employees, and the freeze is in effect through next fiscal year.

Mr. Murphy presented competitive analysis data updated from the 2008 McLagan Partners salary survey conducted on behalf of the Washington State Investment Board (WSIB). The survey included 35 investment and investment-related WSIB staff. He described the survey as an apples-to-apples comparison of like jobs at other large public pension funds.

Mr. Murphy said down markets have increased scrutiny on pay and caused most funds to modify incentive plans, and one fund surveyed decided to suspend its plan. He described how market conditions affected pay in 2008 and 2009 in both public and private funds.

Mr. Murphy reported the WSIB's 2008 salaries fell about 30 percent below the median and average pay levels compared with other large/leading public funds on an aggregate basis, and 2009 salaries were 19 percent below the average.

In response to member questions, Mr. Murphy described that McLagan's survey is a proprietary service performed in cooperation with the National Association of Senior Investment Officers. The report includes a listing of participating funds. He said most funds report on a fiscal year basis; therefore, current year salary data was collected, but incentive pay information collected from other funds would be from the previous year.

Mr. Murphy demonstrated pay levels for the Chief Investment Officer (CIO) against other large/leading public funds, and as compared to a blend of public/private; private equity, endowment and foundation; and private sector organizations. The comparisons are categorized into low, median, average, and high percentile levels. The survey results show 2008 pay levels for investment officer positions, in total, were 13 percent below the low quartile of large/leading public funds and 6 percent below the low quartile for 2009; and 2009 salaries are 20 percent below the median. He pointed out that WSIB Senior Investment Officer pay is comparable at 4 percent below the 2009 median, but other investment position pay levels are significantly under the comparison group median.

Mr. Murphy described the recommended WSIB comparison group to large/leading public funds resulted from interviews conducted in 2008 with all Board members and selected staff. The large/leading public fund peer group closely aligns with the WSIB's assets under management, complexity of investments, and mix of in-house and external management practices. Ms. Whitmarsh said McLagan's comparison group is consistent with what R.V. Kuhns used in past WSIB salary surveys. She said the peer group does not include non U.S. public funds, although WSIB's statute does not prohibit that. Historically, all salary ranges have been based on the results of U.S. public fund comparisons. Salary information on private and other organizations is included for comparison purposes only.

Ms. Hager said the proposed investment officer salary ranges are set using the survey's high quartile salary level of large/leading public funds as the WSIB's top of the range, and the range then moves down 40 percent. This approach complies with Board policy and WSIB statute. The proposed 40 percent spread is also consistent with past Board-approved ranges. Mr. Hill commented on the unusual methodology and his experience that salary ranges are set on mid-range, and increase/decrease from that point. Ms. Whitmarsh suggested the Board may want to revisit the policy.

Mr. Masten recommended the Administrative Committee postpone the Investment Officer Compensation Plan discussion until a later date. Mr. Ragan seconded the motion.

Chair McElligott suggested to narrow future discussions, prior to setting ranges. Mr. Masten proposed the Committee discuss how it wishes to proceed. Treasurer McIntire emphasized it is important to pay attention to the difficult economic times. He has a lot of confidence in staff, and the Board relies heavily on them to perform well; however, the discussion requires more time to examine the data and consider a strategy. Mr. Masten agreed that WSIB staff is excellent, but said there are also other state employees doing excellent work who are enduring very difficult situations.

The above motion carried unanimously.

ADMINISTRATIVE COMMITTEE CHARTER 1.00.120 REVISION

Ms. Whitmarsh said the Audit Committee recommends moving nomination of nonvoting members to the Administrative Committee. Chair McElligott said a revision to the Administrative Committee Charter is necessary to accommodate the change. He believes the Administrative Committee is the appropriate place for that function. Mr. Masten noted the Administrative Committee would take on the responsibility of conducting nonvoting member candidate interviews. Mr. Hill said the Audit Committee planned to discuss the appropriate role of nonvoting members, desired qualifications, the selection process, and tenure. After reviewing legislation and fiduciary counsel advice, the Audit Committee believed the matter should be dealt with by a Committee that does not include nonvoting members. That Committee's recommendation is to move the entire nonvoting Board member process to the Administrative Committee. Chair McElligott agreed the Administrative Committee should take on the responsibility.

Mr. Ragan moved the Administrative Committee recommend the Board approve the proposed revisions to the Administrative Committee Charter 1.00.120. Treasurer McIntire seconded, and the motion carried unanimously.

SUDAN RESOLUTION

Ms. Sandboe reviewed changes to the proposed Sudan Resolution resulting from the February Administrative Committee discussion and subsequent conversations with Treasurer McIntire.

Treasurer McIntire moved the Administrative Committee recommend the Board adopt the WSIB Resolution on Sudan Investment. Mr. Hill seconded the motion.

Treasurer McIntire proposed adding "in the commingled trust fund" within the paragraph beginning with "BE IT RESOLVED..." to clarify investments covered by the Resolution.

Treasurer McIntire moved to amend the original motion to include additional language. Mr. Ragan seconded the motion.

The suggested language revision was distributed to members. Mr. Masten asked if investments outside of the Commingled Trust Fund (CTF) have Sudan investments. Mr. Bruebaker pointed out the Resolution has always applied only to the CTF, and the suggested language addition merely clarifies that. Other investments not covered under the Resolution include mutual funds within Plans 3 and the Deferred Compensation Program, which are prohibited from disclosing investments within their funds for 90 days; thereby, making the information outdated by the time WSIB receives it. Staff has very limited control over those investments versus managers the Board can hire and fire.

He said staff would discuss ways to request investment activities' information from funds outside of the CTF.

The motion for the Administrative Committee to recommend the Board adopt the WSIB Resolution on Sudan Investment, as amended, carried unanimously.

Treasurer McIntire said he presented the WSIB's Iran and Sudan Resolutions at a national State Treasurers' meeting. The WSIB's approach provoked a lot of conversations, but was well received and other State Treasurers have requested copies of WSIB's resolutions. He complimented staff's efforts to move forward on the issue.

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. It also plans to discuss the performance of a public employee. He said the executive session was expected to last until about 9:25 a.m., at which time the Committee would reconvene in open session.

[The Committee went into executive session at 9:03 a.m.]

[Mr. Nierenberg arrived at 9:04 a.m.]

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

[Representative Santos, and Messrs. Nakahara and Seely arrived at 9:30 a.m.]

[Mr. Muhlebach arrived at 9:37 a.m.]

**ASSISTANT ATTORNEY GENERAL'S REPORT
EXECUTIVE DIRECTOR SIX MONTH EVALUATION**

[The Committee reconvened in open session at 9:51 a.m.]

OTHER ITEMS

There was no further business to come before the Committee, and the meeting adjourned at 9:51 a.m.