

WASHINGTON STATE INVESTMENT BOARD
Administrative Committee Meeting Minutes
June 17, 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 (via teleconference)
Steve Hill
George Masten

Committee Members Absent: Mike Ragan

Other Members Present: Bill Longbrake
Richard Muhlebach
Wolfgang Opitz
Judi Owens
Mason Petit
Representative Sharon Tomiko Santos
Judy Schurke

Also Present: Theresa Whitmarsh, Executive Director
Gary Bruebaker, Chief Investment Officer
Victor Moore, Chief Operating Officer
Liz Mendizabal, Public Affairs Director
Steve Lerch, Research 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 MAY 20, 2010, MINUTES

Mr. Masten moved to adopt the May 20, 2010, Administrative Committee meeting minutes. Mr. Hill seconded, and the motion carried unanimously.

BUDGET

Six-Year Resource Plan

Ms. Whitmarsh presented an update to the six-year plan, which was built by staff and approved by the Board in 2008. She said the 2010 update downsizes the 2008 plan, consistent with the current economic times, state situation, and broader market conditions. Ms. Whitmarsh believes staff's plan provides for adequate resources going forward.

Ms. Whitmarsh reviewed the Board's strategic framework of value, support, and capacity. While the budget is largely oriented toward building capacity, both support and value are considered in developing the budget. Staff also developed themes based on guidance it received from the Board at its off-site planning session focusing on risk, staffing, corporate governance, and WSIB branding (reputation in the marketplace). The goals of the six-year plan remain unchanged from 2008. Those are for the WSIB to (1) expand capacity to manage global funds, emerging markets, and tangible assets; (2) continue to improve risk management by integrating qualitative and quantitative analyses into processes and decisions; (3) attract, develop, and retain skilled staff; and (4) maintain conviction to stay with an investment strategy during periods when the strategy causes underperformance relative to peer institutional investors. Ms. Whitmarsh said the budget goals are to sustain excellent long-term investment performance, enhance risk management and control, and align organizational capacity.

Ms. Whitmarsh reviewed the current staffing and reasons for future needs within each asset class to sustain excellent long-term investment performance. The six-year plan proposal would add 1 FTE to Asset Allocation and Portfolio Risk, 1 FTE to Private Equity, 3 FTEs to Real Estate, and 3 FTEs to Tangible Assets. Staff believes current resources are adequate within Public Equity, Fixed Income, Research, and Corporate Governance provided current strategies remain in place.

To enhance risk management and control, the proposal is to add 2 FTEs over six years within the Risk Analysis and Reporting areas. Staff believes current FTE levels within Compliance and Internal Audit support our strategy going forward. Ms. Whitmarsh noted there may be increased fees for external audit sources, as the State Auditor's Office has announced a reduction in the agency services it currently provides.

[Ms. Schurke arrived at 8:43 a.m.]

To align organizational capacity, the proposal is to add 1 FTE within Portfolio Administration due to increased workload resulting from the Real Estate and Tangible Assets, LLC structure, and emerging markets initiatives. One FTE may become necessary within Performance Reporting, but this is somewhat dependent on capacity that can be gained from the data warehouse. Staff believes the current FTE levels within other units support strategy going forward.

Ms. Whitmarsh summarized the six-year plan adds 11 FTEs, which is down from 50 FTEs planned two years ago. Staff is confident the current plan provides adequate capacity for the organization's mission and goals.

[Treasurer McIntire was in attendance via teleconference at 8:45 a.m.]

2011-2013 Biennial Budget Request

Mr. Moore presented details on the budget development process, timelines, and appropriated and non-appropriated budget requests.

He described the appropriated budget is comprised of operating funds the agency receives through an appropriation from the Legislature. The non-appropriated budget pays for investment expenses and does not require legislative appropriation. Staff has developed the budget for the

Board's consideration today and, if approved, the proposal would be submitted to the Office of Financial Management (OFM) in late August. The Governor's budget office would then analyze the proposal and send its recommendation in December for the Legislature to consider and pass a budget in April. Once the Governor signs the approved biennial budget, it takes effect July 2011.

Mr. Moore described the budget building process, which includes current biennium authority, and carry forward, maintenance, and performance levels measured by OFM. Budget categories include salaries and benefits, personal service contracts, goods and services, travel, and equipment. He said the relative size of the appropriated budget compared to total funds under management is about 4 basis points (bps) with the majority of monies (72.8 percent) going toward salaries and benefits. Relative to the six-year plan, 3 FTEs for Real Estate, Tangible Assets, and Risk Analysis and Reporting are planned for the 2011-2013 biennium. He reviewed agency historical FTE status, which reflects a focus on investment capacity. The budget request also provides for mandatory ongoing costs such as utilities and merit system increases, and replacement of the obsolete telephone system. There is also a placeholder for Investment Officer compensation, pending further discussion by the Board on how it plans to address the current salary survey. The survey revealed WSIB Investment staff compensation currently lags behind other peer institutions by 4 to 30 percent.

Mr. Moore said the non-appropriated budget timeline is shorter because it does not involve legislative appropriation—only Board approval. The non-appropriated budget would also take effect July 2011. The budget process involves current expenditures, reductions, growth, and strategic enhancement, and includes a lot of budget categories relating to investment expenses. These categories align with peer organizations to allow for cost and performance comparisons. Mr. Moore discussed the challenges in forecasting non-appropriated expenses due to movement in asset classes, growth, volatility, and legal fees. Staff anticipates an increase from 2009-2011 projected expenditures of \$600 million, to \$677 million for the 2011-2013 biennium due to growth in global equity; private equity, real estate, and tangible assets management fees; and strategic enhancements. He described anticipated reductions and growth within the non-appropriated budget.

Mr. Moore said WSIB performance has resulted in lower costs and higher than average returns compared to its peers. Staff has attained the 8 percent expected rate of return and will continue to shoot for that in the next biennium. Ms. Whitmarsh noted that, in terms of total cost, WSIB has trended upward due to asset allocation decisions.

Mr. Hill complimented staff on their presentations. He asked staff to document total costs in terms of bps relative to investment assets over the last 10 years in order to examine trends. He also challenged staff to continue to find ways to reduce costs by business process improvement, while building out the strategy.

Mr. Masten moved the Administrative Committee recommend the Board approve the proposed 2011-2013 operating biennial budget. Mr. Hill seconded, and the motion carried unanimously.

[Representative Santos arrived at 9:01 a.m.]

BOARD SELF-EVALUATION PROCESS

Chair McElligott said the process used last year for the Board's self-evaluation included a review of Board education session and meeting attendance. Ms. Haines added that she also prepares an annual report of how the Board spends its time. Chair McElligott said past discussions routinely cover where the Board is at currently, and what it is doing. Mr. Masten pointed out discussions are normally held in closed, executive session. Mr. Hill suggested members also plan to discuss how the Board is doing with respect to best industry practices. Ms. Whitmarsh said staff would research and provide best practice data for the Board's discussion. She said the self-evaluation item is scheduled for the July Board meeting, just following a behavioral finance and decision-making presentation intended to stimulate discussion on board governance.

Chair McElligott moved the Administrative Committee recommend the Board continue the practice it used last year for its self-evaluation process at the July meeting, including review of meeting attendance, education, and how the Board spends its time. The process will also include questions on Board best practices. Mr. Masten seconded the motion.

Chair McElligott asked Mr. Hill to work with staff on preparing best practice information for the self-evaluation discussion.

The above motion carried unanimously.

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. It also plans to discuss the performance of a public employee. He said the executive session was expected to last about 5 minutes at which time the Committee would reconvene in open session.

[The Committee went into executive session at 9:07 a.m., and reconvened in open session at 9:19 a.m.]

OTHER ITEMS

There was no further business to come before the Committee, and the meeting adjourned at 9:21 a.m.