

**WASHINGTON STATE INVESTMENT BOARD**  
**Administrative Committee Meeting Minutes**  
**December 16, 2010**

The Administrative Committee met in open session at 8:30 a.m. in the boardroom at 2100 Evergreen Park Drive SW, Olympia, Washington.

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

Other Members Present: Senator Lisa Brown  
Bill Longbrake  
Richard Muhlebach  
David Nierenberg (via teleconference)  
Judi Owens

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  
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 NOVEMBER 18, 2010, MINUTES**

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

**DRS DEPARTMENT-REQUEST LEGISLATION**

Mr. Hill said within the Committee materials is a department-request legislation proposal that would allow the WSIB to select the default option for Plans 3. Currently, if a new employee enters the system and does not make an election, they are defaulted into Plan 3 by law and into the Total Allocation Portfolio (TAP) as the default investment option on the defined contribution side. The proposed legislation would change the default into an investment option selected by

the WSIB. Mr. Hill said the Board asked the Department of Retirement Systems (DRS) to work with WSIB staff on developing options to reduce the risk to the CTF associated with the TAP option. Both staffs considered key issues in developing the legislative proposal. If the default option was changed, perhaps the target date funds would be a more appropriate choice; however, members would still have the option of switching into the TAP. Three options were considered in determining who should decide on the default option: (1) have the DRS Director make the selection, (2) make target date funds the default option, or (3) have WSIB select the default option. DRS believes option 3 is the best choice. Mr. Hill said he did not believe it is appropriate for one person to make the decision, nor is it optimal to write the default option into law when investment products may change in 10 years time. He said the proposal is prepared as DRS-request legislation, but his preference would be for it to be introduced jointly with WSIB legislation since it manages the CTF and selects the Plan 3 investment options.

Mr. Ragan shared his concern that this is an expansion of the WSIB's role to become responsible for someone's choice. He would prefer to have new members defaulted into Plan 2 so they could change out of it if they chose to do so.

Mr. Masten said the Board was overruled when it tried to prevent the Legislature to place employees into the TAP fund as it did not think it was an appropriate investment vehicle. He asked if it is possible instead to change the default to Plan 2. Mr. Hill said it was proposed legislation last year but did not make it through the Senate.

Mr. Masten spoke in support of the proposal. He does not believe it is much of a stretch as the WSIB already selects the investment options. Mr. Ragan agreed with the default solution, but said he does not believe this Board should decide. Ms. Owens expressed her fiduciary responsibility leans her toward wanting to default employees into a targeted investment option; however, she has been approached by those taking an opposing view who believe the CTF's performance represents a better investment option. Mr. Hill said if the WSIB selected a default option other than the TAP, a member could still choose the TAP.

Chair McElligott said he had discussed Committee procedural issues with Mr. Dietrich. Chair McElligott recalled a prior DRS Director reiterating that DRS's job is to administer to beneficiaries and the WSIB invests and decides the menu of investment options, and the two paths should not cross. He does not feel it is appropriate for the WSIB to tell employees where to invest. Mr. Hill believes electing the default is consistent with the WSIB's role: it currently selects a limited number of investment choices for Plan 3 – this proposal is not a significant extension of that role.

A lengthy discussion ensued and Chair McElligott stated his preference to discuss the matter at the Board meeting and possibly readdress it in January.

[Treasurer McIntire arrived at 9:03 a.m.]

## **2011 RECOMMENDED BOARD EDUCATION**

Ms. Whitmarsh said the recommended Board education list is basically the same as in 2010. One conference was removed as no one had attended it in the last 7 years.

**Mr. Masten moved the Administrative Committee recommend the Board approve the 2011 Recommended Board Education listing. Mr. Ragan seconded, and the motion carried unanimously.**

## **LEGISLATIVE SESSION PREVIEW**

Ms. Mendizabal said the upcoming Legislative session is bound to be intense with difficult decisions to make and accept. She noted last weekend's special session and the Governor's press releases this week relating to budget, pensions, healthcare, and agency reductions. These proposals are the first of many to come, with the outcomes unknown until bills are signed into law. Ms. Mendizabal said staff's focus will be to meet with and educate legislators on the mission and contributions made by the WSIB. In addition to individual member meetings, Ms. Whitmarsh also plans to make presentations before the House and Senate Ways and Means committees.

Ms. Mendizabal said legislative updates will be included in the Executive Director's monthly report to keep the Board informed.

## **IRAN/SUDAN RESOLUTIONS RENEWAL**

Ms. Sandboe presented the Sudan Investment Resolution and the WSIB Resolution on Iran Investment to the Committee for renewal. If adopted, the resolutions will renew the WSIB's commitment to monitor and actively engage with certain companies in the WSIB's portfolios that conduct business in Iran and Sudan. Ms. Sandboe relayed the Sudan resolution was originally adopted in 2007 and readopted by the Board this past spring. The Iran resolution was first adopted in 2008 and is scheduled to expire January 1, 2011. Under the terms of the resolutions, staff takes steps each year to determine if there are companies in WSIB's portfolio that have been identified as having business operations in Iran or Sudan. The WSIB sends a letter to the company CEOs urging them to stop their business activities in that country. The proposed renewals include minor changes to reflect the WSIB's engagement protocols and acknowledge the U.S. government's tough new economic sanctions in Iran. Staff recommends that both resolutions be scheduled for sunset and possible renewal on the same date of January 1, 2014. Mr. Masten questioned why the language on the Iran Resolution, under item 4, did not detail that two Board members are appointed by the Superintendent of Public Instruction. Staff agreed to include that detail.

**Mr. Masten moved the Administrative Committee recommend the Board approve the resolutions as amended. Mr. Ragan seconded, and the motion carried unanimously.**

## **ASSISTANT ATTORNEY GENERAL'S REPORT**

Mr. Dietrich reported the Board has been invited to sign onto an amicus brief relating to a challenge to a new Securities and Exchange Commission's (SEC's) proxy access rule, 14a-11. The SEC's rule was immediately challenged by the U.S. Chamber of Commerce and Business

Roundtable that believe the rule will be abused by pension funds ruled by unions and used by the state for political reasons. The SEC is defending its position. The Council of Institutional Investors (CII) plans to support the rule and is asking pension funds to add their names to the amicus brief to bring the court's attention to the perspective of large institutional investors. He said he and Ms. Sandboe would be allowed to review two drafts of the brief and would only sign it if comfortable with the direction it takes, with the approval of the Board and Attorney General. Mr. Dietrich said he discussed the matter with the Solicitor General's Office and they are comfortable with the proposal.

**Treasurer McIntire moved that the Administrative Committee recommend to the Board that it authorize the WSIB, subject to the approval of the Attorney General, to join an amicus brief in support of the new SEC Rule 14a-11 in the case known as Business Roundtable and Chamber of Commerce of the United States of America v. Securities and Exchange Commission. Mr. Masten seconded the motion.**

Treasurer McIntire said the SEC rule is a move in the right direction and he does not believe the WSIB or any other pension fund would abuse the privilege. He reported the Audit Committee discussed, at length, that it voted against directors roughly 33 percent of the time. He believes the reforms are necessary. Mr. Hill said he would like a better understanding of the issue and whether it would improve returns. He has not seen any information to support that. Ms. Whitmarsh said the Board's proxy voting policy addresses some of these issues and the WSIB is on record supporting access to the proxy. Ms. Sandboe said that CII believes good corporate governance improves performance but studies are inconclusive.

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

Chair McElligott said the WSIB focuses on good corporate governance practices and receives guidance from CII. He does not believe Mr. Dietrich would recommend signing onto anything that would hurt the WSIB. Mr. Dietrich said the SEC's brief will deal with administrative law issues, and CII's brief will deal with the value that public institutional investors bring with increased access to proxies. Mr. Masten said he supports signing onto the CII brief.

**The above motion passed with Mr. Hill abstaining.**

[Senator Brown arrived at 9:34 a.m.]

## **OTHER ITEMS**

Mr. Hill recalled the excellent governance presentation by Mr. Arnie Wood at last July's planning session. He reported that, since July, the Board examined and significantly improved the non-voting Board member nomination process. In thinking about it and talking with the Executive Director and other members, Mr. Hill said he believes it would be useful for the Board to form an *ad hoc* committee to examine other areas, such as processes used for Board meetings, Board selection and development, the role of non-voting Board members, public policy, and also delve into some of Mr. Wood's suggestions. Mr. Hill asked for the Chair to select a group, and suggested it be comprised of three members with staff support.

**Mr. Masten moved that the Chair appoint a 3-member Committee to establish an *ad hoc* governance Committee to review Board operations and best practices and come back with suggestions to the Administrative Committee in March. Mr. Hill seconded, and the motion carried unanimously.**

Chair McElligott said he would raise the matter at the Board meeting.

There was no further business to come before the Committee, and the meeting adjourned at 9:38 a.m.