

**WASHINGTON STATE INVESTMENT BOARD
Administrative Committee Meeting Minutes
January 17, 2013**

The Administrative Committee met in open public session at 8:31 a.m. at the Washington State Investment Board (WSIB) boardroom at 2100 Evergreen Park Drive Southwest, Olympia, Washington.

Committee Members Present: Treasurer James McIntire, Chair
George Masten
Judi Owens
Mike Ragan
Natasha Williams

Other Members Present: Bill Longbrake
Richard Muhlebach
David Nierenberg
Jeff Seely

Others Present: Theresa Whitmarsh, Executive Director
Gary Bruebaker, Chief Investment Officer
Patty Davis, Administrative Assistant

Steve Dietrich, Assistant Attorney General

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

Chair McIntire called the meeting to order and took roll call.

ADOPTION OF MINUTES

Mr. Ragan moved to approve the November 15, 2012, minutes. Ms. Owens seconded, and the motion carried unanimously.

CHARTER OF THE VICE CHAIR 1.00.170 REVISION

Chair McIntire presented the Charter of the Vice Chair revision to members. The revision adds to the duty of the Vice Chair the responsibility for working with each Board member on individual development plans as part of the annual Board self-evaluation process.

Mr. McIntire moved that the Administrative Committee recommend the Board adopt the proposed revisions to the Charter of the Vice Chair 1.00.170. Mr. Ragan seconded, and the motion carried unanimously.

STRATEGIC PLAN THEMES

Ms. Whitmarsh presented the draft 2013 Strategic Plan and its themes to the Committee. Ms. Whitmarsh noted she will incorporate the Committee's feedback and present the final plan to the full Board at its February meeting.

Ms. Whitmarsh reminded members of the framework used to identify the WSIB's strengths, challenges, opportunities, and threats. The goal is to ensure the WSIB has strategies in place to deliver exceptional returns, maintain respect from stakeholders and partners to support us in fulfilling the WSIB's mission, and have the organizational capacity to execute the strategy.

The Board is well respected with a strong reputation, engaged, and committed to the highest standards of fiduciary duty. The WSIB has assembled a highly skilled team of professional staff, and the WSIB is considered an institutional investor of choice among top managers. The technology and analytical services coupled with a robust risk framework gives the WSIB a real advantage in the marketplace.

The risks or threats facing the WSIB are the challenges in delivering rates of return at desired levels. The question becomes where the source of value creation comes from, and how the WSIB makes decisions.

The WSIB must continue to garner support from the Legislature and executive branch by continuously telling the WSIB story. The increased pressure for socially motivated investing/divesting, differentiating the WSIB's performance from other states, and budget constraints create challenges. The WSIB must keep innovating and evolving the business model to stay ahead of capacity.

A skillful Board is critical. While the Board has recently lost two long-serving members, the two new members have a solid background and understanding of the WSIB.

The opportunities for the WSIB are to identify and exploit the value chain and clarify to every employee how their work has value in uniting the front, back, and middle offices.

To ensure the WSIB delivers exceptional returns, three major components of value are utilized – asset allocation, implementation, and cost effectiveness. Asset allocation sets up a certain expected return for the WSIB. A major goal for the investment team in 2013 is a thorough asset allocation review to challenge assumptions. The results of the review will be presented to the Board in July. How the WSIB chooses to implement the asset allocation is also a significant driver of value creation. Past decisions on implementations of asset allocation can inform us about the future, and strategies will be tested going forward. As part of this review, data will be presented to the Board about where decisions have been rewarded or not. And, over time, cost matters to returns.

Ms. Whitmarsh further explained there are several implementation goals identified for 2013. These include the creation of a performance attribution analysis that more fully

describes returns at the implementation level, development of an analytic framework to test future implementation strategies, and the use of macroeconomic considerations when evaluating asset allocation and implementation decisions. Each asset class plans to implement specific tactical goals identified in the annual plans.

Capacity

Ms. Whitmarsh related her questions to Operations staff regarding how the WSIB can translate capacity into performance, and how can staff solidify the changes that have occurred. Ms. Whitmarsh believes the WSIB has the right human resources in place for this effort.

The Board has consistently requested that staff focus on leadership development and succession planning. The Chief Operating Officer and Human Resources Director are developing a program for staff development at all levels and creating opportunities for staff to step into leadership roles. A few staff have been trained in the LEAN techniques, and more are anticipated. There are several LEAN initiatives on process improvement currently underway.

In Investment Accounting, the book of record conversion will begin in 2015, subject to budget authorization.

Support

The WSIB management team will seek meetings with House and Senate fiscal chairs and Ways and Means staff to continue telling the WSIB story. It will be critical for the WSIB to distinguish itself apart from other, troubled pension systems.

The corporate governance program is established, and the WSIB has the opportunity to be very strategic and focused in the use of limited resources. The WSIB's reputation will be enhanced by building relationships with publicly held Washington companies. Performance reporting continues to be an important piece of the Board's tactical goals in telling the WSIB story.

Skillful Board

Ms. Whitmarsh related the 2013 initiatives for the Board. Assistance in telling the WSIB story is critical, as is assisting new members' transition onto the Board.

Chair McIntire suggested that language around achieving returns could be tightened up. The dialogue could be misunderstood without the proper context.

Mr. Ragan inquired what things may be looming on the horizon and suggested we think about any surprises.

Discussion ensued on the risks associated with the unknown and volatility.

[Mr. Nierenberg arrived at 8:54 a.m.]

Members discussed the importance of telling the WSIB story in a way that is understandable to a broad range of stakeholders and sets the WSIB apart from other pension plans.

[Mr. Seely arrived at 9:12 a.m.]

Ms. Whitmarsh assured members that with the legislative session underway, more is being done to ramp up outreach efforts with individual legislators and key stakeholders. Chair McIntire requested that an *ad hoc* communications committee be created to determine what Board members can do to assist. Chair McIntire observed that having the information explained in person was very useful.

Chair McIntire declared that an *ad hoc* communications committee be created. Mr. Dietrich confirmed that it was within the Chair's prerogative to create such an *ad hoc* committee. He will decide on committee membership over the next few weeks.

Other Items

Chair McIntire said he anticipated inquiries about the WSIB's investments in weapon manufacturers. Ms. Whitmarsh confirmed WSIB holdings were valued at approximately \$1.4 million, and were passive in nature. Chair McIntire suggested drafting a letter to WSIB managers to alert them of the WSIB's concerns. Members discussed the advantages or disadvantages in writing such a letter. Mr. Masten observed the WSIB had been through similar situations before, and suggested the Board evaluate the situation thoughtfully before deciding if any next steps were needed.

[Mr. Longbrake arrived at 9:24 a.m.]

Chair McIntire also commented on the issue of climate change. This issue will be brought before the Audit Committee at a later date.

There was no further business to come before the Committee, and the meeting adjourned at 9:41 a.m.