

WASHINGTON STATE INVESTMENT BOARD
Administrative Committee Meeting Minutes
January 16, 2014

The Administrative Committee met in open public session at 9:02 a.m. at the Washington State Investment Board (WSIB) boardroom at 2100 Evergreen Park Drive Southwest, Olympia, Washington.

Committee Members Present: Treasurer Jim McIntire, Chair
Kelly Fox
Marcie Frost
George Masten
Joel Sacks

Other Members Present: Arlista Holman
Bill Longbrake
Bob Nakahara

Others Present: Theresa Whitmarsh, Executive Director
Gary Bruebaker, Chief Investment Officer
Victor Moore, Chief Operating Officer
Liz Mendizabal, Institutional Relations Director
Mary Hougan, Administrative Assistant

Mary Lobdell, Attorney General's Office

[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 THE DECEMBER 19, 2013, MINUTES

**Mr. Masten moved to approve the December 19, 2013,
Administrative Committee meeting minutes. Ms. Frost seconded,
and the motion carried unanimously.**

STRATEGIC PLAN THEMES

Ms. Whitmarsh reviewed the status of the 2013 strategic plan initiatives. She noted many of the plans were multi-year initiatives, so there are a limited number of new projects for 2014.

Completed Projects

WSIB staff completed the Commingled Trust Fund (CTF) asset allocation study and recommendation. The project included several Board education and strategy sessions. The annual asset class plans were presented, approved, and implemented throughout the year. Ms. Whitmarsh noted the investment returns exceeded the 8 percent goal for the 1-, 3-, 5-, and 10-year time periods.

In terms of capacity, private markets valuation methodologies were reviewed with the assistance of Duff & Phelps to ensure we are valuing the assets correctly. The recommendations made by Duff & Phelps have been fully implemented.

The WSIB fully embraced the LEAN process in 2013. Additional staff were trained in LEAN principals and are currently working on many initiatives for process improvement. Several travel policies and processes were streamlined. A coordinated outreach to private market partners was completed to eliminate duplicative work by WSIB consultants and partners.

Utilization and support of mobile tools were improved to take full advantage of new technologies. Information Technology provided training materials, one-on-one sessions, and weekly set office hours to provide employees with opportunities to address new questions.

A new employee orientation program was implemented to improve transition time. An overview was developed that included pertinent work unit information to reduce follow-up questions.

In terms of support, WSIB implemented a communications plan to educate the Legislature, new executive branch, and beneficiaries. Ms. Whitmarsh recognized the Board for their effort to gain legislative support for the 2013-2015 budget. Ms. Whitmarsh stated the Department of Retirement Systems/WSIB holdings are now being posted on the web, lagged by one quarter.

The work of the Governance *ad hoc Committee* in anticipation of Board turnover was a big success. Additionally, the Board evaluation process was reviewed and determined to be sufficient.

Ongoing Projects

Projects still underway for 2013 include the CTF Performance Contribution and Attribution Analysis. A framework has been established to measure contribution and attribution across several dimensions. Data and methodologies, a risk-based framework, and reporting is being further developed. One new staff member has been hired.

The WSIB continues to work with CEM Benchmarking to increase the utility of the annual CEM Benchmarking Report. Methodology issues were broached with CEM and solutions are in progress.

The real estate partners governance and internal control risk review is complete. Several on-site reviews and audits were completed by Risk and Compliance and Internal Audit. Recommendations were presented to executive management and will be implemented in 2014.

The book of record conversion is a multi-year project. The WSIB will use State Street Bank for the book of record. The WSIB will implement additional reconciliation processes for the conversion. The procurement of portfolio verification system and hiring additional staff will be the final phase of the project.

The WSIB expanded its Seattle office to accommodate staffing levels. It will become a permanent office for the Real Estate staff. A plan has been developed and will be completed in 2014.

The Human Resources' multi-year leadership development program is under review and is scheduled for implementation later this year. This will enable staff to acquire a specialized skill set to meet their specific needs.

Initiatives with Hermes and Millstein Center for Global Markets and Corporate Ownership were explored around expanding the WSIB's corporate governance engagement efforts. Collaboration with Millstein will continue with a focus on Columbia University academics to develop better performance metrics around governance. WSIB is also exploring this initiative with the Canada Pension Plan and a number of other large institutional investors to determine better measures around long horizon investing.

[Mr. Nakahara arrived at 9:15 a.m.]

New Projects

Ms. Whitmarsh announced the new projects for 2014. Recommendations of the CTF asset allocation study will be implemented. The WSIB will review the ability for third-party capital to invest in currently non-qualified assets and explore incorporating sustainability measures into risk analysis.

Executive management will continue its succession planning and a formal plan will be presented to the Committee. The team will also work on building the 2015-2017 budget that will be presented to the full Board in June. The investment officer biennial compensation survey required by statute will be conducted later in April or May of this year.

An integrated pension reporting project has been initiated by the Office of the State Actuary. The goal is to establish a place where all pension system information can be found in a single place. Mmes. Frost and Whitmarsh have been asked to participate in the project. The Society of Actuaries put together a template and more information will be provided this year.

Ms. Whitmarsh pointed out the refreshed membership of the Board includes seven new voting members. The WSIB would like to ensure this year's education and strategy sessions are foundational for Board members—one planned education session will include a history of key decisions made by the Board. A Board education and strategy calendar that provides foundational knowledge will be completed this year. Ms. Whitmarsh pointed out that WSIB staff has benefited from the Board continuity and would like to see that continue over the next 4 or 5 years.

Chair McIntire expressed the importance of developing and maintaining the culture of the Board. He encouraged new members to ask questions and have informal training sessions with WSIB staff to establish a foundation and build trust.

Ms. Frost noted it takes years to gain the knowledge and it would be beneficial to start the foundation sooner rather than later. Ms. Frost suggested thinking about extra

steps and conversations to build a working foundation. This will enable new members to understand the context and framework around prior decisions.

Mr. Sacks appreciated that he is still considered a new member. He noted he feels more prepared to learn now than he was a year ago. He suggested an 18-month month orientation. Mr. Sacks requested training about investment benchmarking and governance strategy in the U.S. as compared to other countries.

Mr. Masten expressed how important it is for new members to attend every meeting.

Chair McIntire acknowledged the Committee annual planning meetings are very beneficial to all Board members.

Ms. Whitmarsh said the Committee's feedback on the proposed 2014 Strategic Plan will be incorporated and presented to the full Board in February.

ASSISTANT ATTORNEY GENERAL'S REPORT

Ms. Lobdell reported on the Supreme Court's decision to hear Halliburton's class action case. This is a securities case and could make it more difficult for shareholders to sue companies for engaging in fraud. Halliburton is challenging the presumption of reliance and arguing that a plaintiff must prove actual reliance. Various groups are starting to circulate amicus briefs and the Attorney General's Office will approach Ms. Whitmarsh to determine which brief, if any, to sign on with. Ms. Lobdell expressed the importance of picking a brief that represents public policy issues, as opposed to the securities lawyer issues.

There was no further business to come before the Committee, and the meeting adjourned at 9:31 a.m.