

WASHINGTON STATE INVESTMENT BOARD
Administrative Committee Meeting Minutes
January 15, 2015

The Administrative Committee met in open public session at 8:46 a.m. at the Washington State Investment Board (WSIB) boardroom at 2100 Evergreen Park Drive Southwest, Olympia, Washington.

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

Other Members Present: Arlista Holman
Judy Kuschel

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

Mary Lobdell, Attorney General's Office

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

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

ADOPTION OF THE NOVEMBER 20, 2014, MINUTES

**Mr. Fox moved to approve the November 20, 2014,
Administrative Committee meeting minutes. Mr. Masten
seconded, and the motion carried unanimously.**

STRATEGIC PLAN THEMES

Ms. Whitmarsh introduced the proposed 2015 strategic plan initiatives, noting the utilization of last year's format. She presented a very high level view of the plan and said she will incorporate thoughts and comments from the Committee into the full strategic plan that will be presented to the Board in February.

Completed Projects

Ms. Whitmarsh reviewed the projects that were completed in 2014. She noted the framework includes Value, which are things around investments that we do; Capacity is what our organization is capability of delivering; Support is more of the external relations; and Skillful Board, upon which all of our capabilities rest.

Value

In terms of Value, the Board adopted a new asset allocation, which reduced the private equity by two percent and increased the allocation to real estate. Private

equity is above its 23 percent allocation, and real estate is establishing a pacing model to achieve its goal by 2019.

One of the accomplishments last year was by a lot of work from staff and the Treasurer, to establish a new investment belief, incorporating sustainability measurers into risk analysis, with a particular focus on assessing climate risk in the portfolio. In addition, the Board adopted a new proxy guideline, which will be more fully explored in March.

Support

Ms. Sandboe and WSIB's governance consultants provided the WSIB with options on how to evaluate shareholder initiatives related to climate risk exposure. There will be ongoing implementation of the direction from the Board in that area.

Capacity

In terms of capacity, there were methodology issues with CEM Benchmarking, particularly how they benchmarked us against others. WSIB set higher standards for itself in terms of performance, with the benchmarks selected. WSIB is measured against its own benchmark, but other funds are not measured against WSIB's benchmark so that created some peer analysis challenges. Mr. Moore worked very closely with CEM over the last year to get the methodologies adjusted. CEM will come every September, and the new methodologies will be reflected in their analysis presentation.

One of the WSIB's biggest accomplishments in the Capacity area is the establishment of a strong real estate partner, governance and internal control program. Ms. Vandehey, Ms. Killman, and others on the team worked very closely with Mr. Draper and the real estate operating company (REOC) intermediaries to establish internal control best practices. A gap analysis was conducted against those best practices, and implemented twin solutions. REOC intermediaries themselves have hired a shared internal audit resource. The selected firm has a lot of expertise with internal controls and a lot of experience with real estate. WSIB also created a compliance position, and Ms. Killman is the essential person who will ensure real estate partners are adhering to the new practices.

Moving the accounting book of record is near completion. The WSIB has worked with Financial Control Systems (FCS) for many years as its accounting book of record. FCS was unable to update their technology platform, which was creating significant risk from our perspective. The WSIB secured a portfolio verification and reconciliation service with QED Financial Systems, Inc. WSIB is conducting parallel processing with Financial Control Systems (FCS) and will completely switch over to the new service shortly. State Street Bank will be the book of record, as they perform that service for many other funds.

Real estate staff have moved to Seattle. The WSIB will be doing some internal movement in the future to fully utilize that space.

The 2015-2017 budget was approved by the Board last June and submitted to Office of Financial Management. Ms. Whitmarsh was pleased to say the Governor's budget fully reflects the WSIB's request.

Support

One highlight is launching the Women in Private Equity initiative. The general partners (GPs) staff pulled together for that meeting had subsequent meetings and have come up with a very detailed blueprint for action. The GPs circulated it broadly among their community, and Ms. Whitmarsh said she would be presenting at the World Economic Forum Annual meeting next week. Stanford and Harvard have gone back to key Ivy League schools and identified 150 women in the MBA programs who are interested in private equity.

Skillful Board

Significant changes were made in how staff orients new Board members. Everyone agreed to pace training throughout the year. Mr. Sacks suggested using Committee time for education whenever the Committee does not have business or transactions. Chair Frost and Ms. Whitmarsh agreed to bring the asset class plans directly to the full Board this year.

[Treasurer Jim McIntire arrived at 8:54 a.m.]

Projects Still Underway

The first is the Comingled Trust Fund (CTF) performance contribution and attribution analysis. This arose out of the data warehouse project but it is still not ready for prime time. WSIB will still be primarily internally focused for the next year.

Staff is reviewing the ability for third-party capital to invest in private markets. This was stimulated by a request from Labor and Industries (LNI), through Mr. Sacks, to think about whether or not he could diversify his asset allocation to potentially real estate tangibles. Mr. Bruebaker and his team had a number of conversations with LNI, educating them on those asset classes.

Capacity

Leadership development is a multi-year project. The WSIB has a lot of key person risk throughout the agency, so this is a much broader initiative. Ms. Wood, Human Resources Director, has been working closely with Moran Consulting to develop a broad leadership development and workforce strategy. A self-assessment tool was created for employees to use in conversation with supervisors. The tool will help create individual development plans, along with assessing certain job functions for possible relocation, in order to reduce key person risk throughout the organization.

2015 New Projects

Value

Implementing Annual Asset Class Plans is always the bulk of the work. One of the new initiatives is the concept of whether or not the Innovation portfolio needs a home. Mr. Bruebaker and Ms. Tucker will decide if ownership of that will be within the Asset Allocation and Risk Unit. If you think about the chart that Mr. Ruggels always put up in Private Equity, you see one year after the recession, very little money was put out and that is a concern. Investing in a more even way across vintage years, to get exposure, even when WSIB partners are not investing, might be a problem to send to the Innovation portfolio to think about.

Capacity

Ms. Whitmarsh touched on the Workforce Strategy Project. The near term steps are getting job descriptions up-to-date for Ms. Mendizabal and Mr. Moore, based on this organizational review, and getting a recruiter hired. The organization is expecting to go out with job announcements in March.

Support

Ms. Sandboe would like to work with the new Audit Committee Chair McIntire and Board Chair Frost to take the Audit Committee through a full review of proxy voting guidelines this year.

Ms. Whitmarsh will be meeting with legislators again this year, introducing the WSIB and getting the new members up-to-date on who we are. In expanding the audience for telling the WSIB story, Mr. Seely scheduled Ms. Whitmarsh to present at the April meeting of key business leaders in Seattle.

Ms. Whitmarsh and Ms. Mendizabal are developing presentation materials that Board members can use in conversations with constituents. Ms. Whitmarsh's risk presentation will be refined so members will have it to use.

[Mr. Sacks arrived at 9:07 a.m.]

Skillful Board

Continual improvements are being made to meeting management. There has been discussion about building in an executive session at every private markets meeting, where the Committee can dive deeply into a particular issue with a partner to ensure it is getting the most out of WSIB consultants and partners when they come in to talk.

Staff is building the education calendar, with focus on context for decisions. There is a lot of due diligence done, but there is not necessarily context in terms of what other opportunities WSIB looked at but rejected, what other funds doing, and how it fits into a broader risk frame work.

Risk factors continue to concern and interest people. The management team, Senior Investment Officers, and risk personnel met to discuss focusing the July Board meeting on risk. Staff is considering starting with the broad framework, the whole ERM framework, and then dive into the various aspects of risks, bringing in speakers to give perspective.

Ms. Whitmarsh has had several conversations with Board members about leveraging the non-voting board member expertise more fully. They are willing to do some of the education sessions, as there is a lot of expertise sitting on this side of the table. Mr. Muhlebach has experience in teaching real estate internationally, as an example.

Ms. Whitmarsh asked for feedback and comments; in particular, what members would like to see in education over the next year.

Chair Frost expressed interest in starting the onboarding training day around fiduciary responsibilities first. Developing a foundation around how WSIB invests would be helpful to those who do not necessarily have that type of background, then training through all the asset classes, and then WSIB history.

Ms. Whitmarsh asked about interest in having a more in-depth discussion with fiduciary counsel Bill Song at the July meeting, or is this more in the one-on-one?

Chair Frost clarified the training should be geared toward the onboarding and then one-on-one, if needed. Treasurer McIntire echoed the notion of potential for Private Market Committee meetings spending time in executive session so issues could be discussed in more depth. Mr. Sacks found helpful the education sessions where Mr. Paroian pointed out where WSIB's model is similar, and places where it differs. It is helpful in understanding how the Board is choosing to invest and why it make other decisions.

EXECUTIVE SESSION

Chair Frost announced the Committee would go into executive session 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. She 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 9:14 a.m.]

Assistant Attorney General's Report – 2014 Year in Review

[The Committee reconvened in open session at 9:29 a.m.]

OTHER ITEMS

There was no further business to come before the Committee, and the meeting adjourned at 9:30 a.m.