

**WASHINGTON STATE INVESTMENT BOARD  
Administrative Committee Meeting Minutes  
December 17, 2015**

The Administrative Committee met in open public session at 8:30 a.m. at the Washington State Investment Board (WSIB) boardroom at 2100 Evergreen Park Drive SW, Olympia, Washington.

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

Committee Members Absent: Kelly Fox

Other Members Present: Arlista Holman  
Judy Kuschel

Others Present: Theresa Whitmarsh, Executive Director  
Gary Bruebaker, Chief Investment Officer  
Ian Cameron, Chief Operating Officer  
Allyson Tucker, Senior Investment Officer – Risk  
Management and Asset Allocation  
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 19, 2015, MEETING MINUTES**

**Mr. Masten moved to adopt the November 19, 2015, Administrative Committee minutes. Mr. Sacks seconded, and the motion carried unanimously.**

**ATTORNEY GENERAL'S REPORT**

Ms. Lobdell provided the Assistant Attorney General's 2015 Year in Review Report on litigation. She stated that U.S. Bank and Bank of America had litigation filed in 2013 and settled in 2014. The settlement amount is unknown at present because she is still waiting for the claims process to be finalized. Ms. Lobdell said a new complaint was filed this year against Petrobras, and her office is currently involved in discovery on this litigation.

She also reported there have been two new foreign litigation matters in which the WSIB is involved. The first is Saipan, located in Italy, which deals with a company that provided construction services to the oil and gas industry. The second litigation is confidential at this time because contracts are still being negotiated.

She also reported the Seaport Village litigation has ended. The court ruled in favor of Terramar, and all issues have been resolved.

Mr. Sacks asked if the number of pending Petrobras lawsuits is public information. Ms. Lobdell said yes, there were approximately 10 to 15 individual actions filed.

[Ms. Holman arrived at 8:33 a.m.]

### **GUARANTEED EDUCATION TUITION (GET)**

Ms. Tucker reported the GET Committee took action to begin the development of a state-managed, direct-sold 529 college savings plan. The GET Committee held a meeting on December 3 and asked external parties to present information to them for input into their deliberations. The WSIB staff presented at the meeting and discussed similarities between Washington State's Deferred Compensation Program (DCP), which is a self-directed plan, and what is being learned about in the 529 self-directed savings plan industry. Ms. Tucker said the Committee wanted to pursue legislation in the upcoming session, prior to all of the deliberations being complete, because they did not want to lose the full year in terms of completing the analysis and then seeking legislation. The WSIB will assist the Committee in drafting language. Treasurer McIntire added the intent is to pursue setting up a 529 plan, and the Committee needs authorization to do that.

Mr. Sacks asked what it means to move GET into a 529 plan in terms of asset allocation or investment strategy. Ms. Tucker stated that a decision to set up a 529 plan is separate from a decision to discontinue the college prepaid tuition plan. If a 529 plan is set up, it would be a self-directed plan. She explained the prepaid tuition plan is similar to a defined benefit plan, whereby the state owns the investment risk. The 529 college savings plan is similar to a defined contribution plan and is self-directed, whereby the participants own the investment risk.

Mr. Sacks asked if the identification of the menu of options would be the responsibility of the Board. Ms. Tucker said yes, as would managing the options.

### **STRATEGIC PLAN THEMES**

Ms. Whitmarsh presented the Strategic Plan Themes, stating the WSIB is at a critical juncture in its evolution. One of the things the WSIB has benefited from is absolute mission clarity—maximizing returns at a prudent level of risk for the exclusive benefit of the beneficiaries. As the number of beneficiaries that the WSIB serves expands, the resource needs could be forced into conflict, and even fiduciary duty could potentially be in conflict. Ms. Whitmarsh said it is time to apply the same due diligence or rigor that we would apply to our investment managers anytime we see an investment manager straying from its core mission or core competencies. Thought needs to be given to "who" the WSIB is going forward.

Ms. Whitmarsh summarized the WSIB's strategic competitive advantages, including independence, transparency, impeccable integrity, the WSIB's international relationships and experience in both asset class and geographic markets, access to attractive investments and to the best managers, leverage in terms of special products and cost advantage, multi-asset class expertise which allows the customization of asset allocations, and the ability of the WSIB to offer a more broad asset product suite than one might get elsewhere.

Ms. Whitmarsh said that, as an organization, the WSIB's advantage is that it is mission-driven. Unlike other agencies, the WSIB has only one mission—to make money. Over the years, because of a good governance structure, the WSIB has had adequate resources and has been able to build best in class systems and processes, which helps attract and retain a skilled staff.

Ms. Whitmarsh said the WSIB is increasingly being looked at to expand existing mandates and to add new mandates requiring new projects and services, which may cause mission creep or strain resources and this challenge needs to be brought to the Board for discussion.

Discussion ensued regarding potential new mandates, asset allocation, resource allocation, importance of providing decision feedback to policymakers, and Board guidance on how to best meet the needs of everyone.

Ms. Whitmarsh asked how the Board would like to engage in the strategic discussion. The budget planning will begin soon, and the draft 2017-19 budget will be presented to the Board in June. She said staff needs feedback from the Board on the process by which the WSIB accepts new mandates. She discussed the value in serving multiple clients and meeting Legislative needs, reputational risk regardless of fund size, other potential solutions for stakeholders outside of WSIB management, the WSIB's responsibilities and obligations, and potential expanded services at the Office of the State Treasurer (OST), and said these are the issues on which staff needs guidance.

Treasurer McIntire said that only the WSIB is able to manage state funds in equity investments. The OST is currently engaged in dialog with the Attorney General's Office on whether or not treasury money can be put into corporate bonds, adding that it would require statutory approval.

Discussion ensued around possible solutions, client reputational risk, Legislative authority, the unique position of the WSIB relative to its peers, and need to discuss further the scope of this initiative.

[Ms. Kuschel arrived at 9:02 a.m.]

Chair Frost recommended an *ad hoc* Committee of the full Board to discuss the issue. She requested that Mr. Sacks chair the Committee, and she asked Mr. Masten and Ms. Kuschel to participate on the Committee, along with herself. The *ad hoc* Committee will report to the full Board.

**Ms. Frost moved that the Administrative Committee recommend the Board create an *ad hoc* Committee for assistance with the Strategic Plan development. Mr. Sacks seconded, and the motion carried unanimously.**

Ms. Whitmarsh suggested the Committee convene in January to begin discussions. Ms. Whitmarsh would like to have an initial framework of the issues and viewpoints that she could bring to the full Board in February for discussion. The feedback will be taken back to the Committee in order to settle on an approach, so that it can feed into the budget development.

Mr. Sacks asked if the Board envisions any legislative discussion in the upcoming session. Ms. Whitmarsh said the 529 plan and Achieving a Better Life Experience (ABLE) legislation will be coming this session. Chair Frost said Senator Bailey will recommend her bill again, slightly changed, that will auto enroll all new state employees into the Deferred Compensation Plan (DCP); they would have to opt out within 90 days. If they opted out within 90 days, all contributions would be returned to them. Chair Frost said a secondary part of the bill is the addition of a 401a plan, which is similar to the 457 plan in terms of investment options.

Mr. Sacks suggested that, in terms of prioritization, the group needs to first tackle what could come up between now and March and then take on some of these broader questions.

Chair Frost said the WSIB continues to be approached about taking over the administration of other local governments' 457 plans. Energy Northwest would like the WSIB to take over the administration of its plan, as well as a 401a plan. Ms. Whitmarsh said that some legislators would like to see cities that have opted out of the WSIB's system potentially transfer over. Chair Frost stated that, with the additional mandates the WSIB continues to be approached on, Board composition could also become a question.

#### **OTHER ITEMS**

There was no further business to come before the Committee, and the meeting adjourned at 9:12 a.m.