

**WASHINGTON STATE INVESTMENT BOARD
Administrative Committee Meeting Minutes
February 18, 2016**

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: Judy Kuschel

Others Present: Theresa Whitmarsh, Executive Director
Gary Bruebaker, Chief Investment Officer
Ian Cameron, Chief Operating Officer
Chris Phillips, Institutional Relations Director
Celina Verme, Finance and Administrative Services Director
Kate Sandboe, Legislative Relations and Corporate Governance Officer
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 DECEMBER 17, 2015, MEETING MINUTES

Mr. Sacks moved to adopt the December 17, 2015, Administrative Committee minutes. Mr. Masten seconded, and the motion carried unanimously.

BUDGET UPDATE

Ms. Verme reported the appropriated budget has a projected balance of \$819,000 (4.1 percent savings), and the non-appropriated budget has a projected balance of \$73.3 million (19 percent savings).

[Treasurer McIntire arrived at 8:33 a.m.]

PUBLIC EQUITY TERMINATION

Ms. Whitmarsh stated the Board has given the Executive Director and the Chief Investment Officer authority to terminate a manager in between meetings should there be a need to do so. She stated the WSIB terminated the WHV contract and

staff is requesting reaffirmation by the Board of that decision in an open public meeting.

Ms. Frost moved that the Administrative Committee recommend the Board affirm the termination of the WHV investment management contract effective January 8, 2016. Treasurer McIntire seconded, and the motion carried unanimously.

PUBLIC COMMENT DISCUSSION

Mr. Phillips raised a point of discussion for the Committee based on a recent question involving the Board's preferred practices for hearing public comment during Committee meetings. Discussion followed.

Ms. Whitmarsh stated this is an evolving issue. Chair Frost asked Mr. Phillips to research potential public comment policy options, along with implications of having public comment during Committee meetings.

[Ms. Kuschel arrived at 8:40 a.m.]

AD HOC COMMITTEE

Mr. Sacks stated the WSIB created an *Ad Hoc* Committee of the Board to address governance issues around the WSIB's role relative to managing public funds. Key takeaways from the Committee discussion were:

- The WSIB can provide cost-effective investment management services for funds investing in equity securities and corporate debt security strategies, and the Treasurer's office can provide cost effective investment management services for funds that are restricted to invest in government securities such as Treasuries.
- The primary risk associated with taking on additional mandates is the loss of focus on our core competencies, as well as the risk of stretching staff resources and creation of cost inequities between the larger and smaller funds.
- Under circumstances in which the WSIB is not the appropriate investment manager solution, the WSIB could generally serve as the default source for funds' governing entities seeking guidance on fund portfolio investment strategies and management. Rather than turning away mandates, we should redirect stakeholders to a recommended cost-effective investment solution that takes into account the specific needs, requirements, and objectives of each fund, from the standpoint of "what's right" for our stakeholders.
- We need to be diligent and consistent in the preparation of our fiscal impact statements and request the resources required to deliver quality investment management services specific to each stakeholder's need, without harming or compromising our existing services.

The Committee had a second meeting to address high-level risk tolerance of pursuing private markets investments in non-CTF funds. Key takeaways from the Committee discussion were:

- The Committee is comfortable proceeding with both exploring the expansion of the use of the Total Allocation Portfolio (TAP) and with offering private markets investments to Labor and Industries.
- Over time, inclusion of the TAP in the retirement strategy funds would increase the illiquidity risk of the CTF. Staff will analyze the potential impact. Decreasing trading frequency from monthly to quarterly would be an improvement and would allow for management of liquidity and valuation issues.
- The Committee is not in favor of removing the TAP as a stand-alone option in the Plan 3 menu.
- Labor and Industries (L&I) is considering adding real estate to its portfolio as a starting point with private markets investments.
- Staff will work with the Department of Retirement Systems (DRS) and L&I to incorporate their respective stakeholder engagement processes into the timeline.

Mr. Sacks stated there is an increase in reputation risk around the timing of valuations of private markets investments, although focusing the trading window on a quarterly frequency would be an improvement.

Implication for Strategy

Ms. Whitmarsh stated the discussions from the *Ad Hoc* Committee were folded into the strategic plan. She said the WSIB wanted some direction from the Administrative Committee on its openness to the WSIB moving forward on exploring the issue of private markets in other funds. The Committee was very supportive, so it has been built into the strategic plan for 2016.

Ms. Whitmarsh stated the Committee's guidance and support for the WSIB to take a sharper pencil to legislation and fiscal notes has already been implemented. Legislative language has been developed to address mandates that come to the WSIB, which has been added to the Achieving a Better Life Experience (ABLE) and Guaranteed Education Tuition legislation.

Mr. Sacks added that when there is a governing Board that would make the decisions, it be suggested to the Legislature to use "may" language allowing the governing Board to select its manager rather than "shall" language that would mandate use of the WSIB.

Ms. Frost said there would need to be significant stakeholder work changing the TAP trading window from monthly to quarterly.

LEGISLATIVE UPDATE

Ms. Sandboe updated the Committee on legislative proposals creating the Washington College Savings Program; creating the ABLE program; allowing state patrol, law enforcement officers, and firefighters to purchase annuities; and creating an optional salary deferral program.

ATTORNEY GENERAL'S REPORT

Ms. Lobdell stated that on February 2, 2016, the Office of the Attorney General issued a Request for Qualifications and Quotations (RFQQ) to establish a pool of Special Assistant Attorneys General litigation counsel. The RFQQ is posted on the WSIB website. The quiet period for this procurement commenced on the date of posting the RFQQ and extends until June 30, 2016.

OTHER ITEMS

There was no further business to come before the Committee, and the meeting adjourned at 9:04 a.m.