

**WASHINGTON STATE INVESTMENT BOARD  
Administrative Committee Meeting Minutes  
June 16, 2016**

The Administrative Committee met in open public session at 8:45 a.m. at the Washington State Investment Board (WSIB) boardroom at 2100 Evergreen Park Drive SW, Olympia, Washington.

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

Committee Members Absent: Treasurer Jim McIntire

Other Members Present: Arlista Holman

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  
Jami Button, Administrative Assistant  
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 APRIL 21, 2016, MEETING MINUTES**

**Mr. Sacks moved to adopt the April 21, 2016, Administrative Committee minutes. Mr. Masten seconded, and the motion carried unanimously.**

**Budget Items**

**Quarterly Budget Update**

Ms. Verme presented the financial status report and end of year projection as of March 31, 2016, reporting that the appropriated budget has a projected balance of \$984,000 (4.9 percent savings), due to staff vacancies and associated savings for salaries and travel. She stated the additional \$107,000 expenditure in the benefits category is due to one-time expenses including donated shared leave and leave buy outs, and also projected is an expenditure of \$321,000 in the goods services category

for information technology services. The projected balance is expected to grow, as actual travel expenses may be lower than budgeted, and central agency billings may be lower as well. Ms. Verme said the non-appropriated budget is projected to have a fiscal year balance of \$70 million (18.2 percent savings), although there have been additional expenditures in public equity and tangible assets, due to higher than anticipated fees in investment activity, and also in the legal services category. The projected balance may vary based on market volatility, asset values, investment contribution, distribution pace, and consulting needs.

### **2017-2019 Operating Budget**

Mr. Cameron presented staff's proposal for the 2017-2019 operating budget. He explained the budget is divided into two components, the appropriated and the non-appropriated budget; the appropriated budget covers the operating costs and is a non-investment, non-general fund budget requiring legislative approval; and the non-appropriated budget, which is approximately 95 percent of the total budget costs, is paid for by investment earnings out of the portfolio. He explained that the non-appropriated budget is specifically related to investment activity and does not require legislative authority; however, both the appropriated and non-appropriated budgets are clear and transparent with the Office of Financial Management (OFM).

Mr. Cameron explained that the appropriated budget is primarily driven by full time equivalent (FTE) staff and the creation of additional capacity to pursue strategic initiatives around research and other objectives. He said the two major components to the budget include a \$5.2 million increase in the appropriated budget, of which 86 percent is due to salary and benefits related to current employees and additional staff requested. He detailed the staffing increases requested and the reasoning behind the requests, including new and expanding initiatives; research; investment monitoring, reporting and analysis; and data analytics, and said there is a placeholder for a position related to alternative assets in the L&I portfolio.

Mr. Sacks commented on the placeholder position, noting that the WSIB is facing a timing challenge as it is in the midst of an asset allocation study, and asked if the results would be back in time to make a recommendation to the Board to amend the budget before the OFM submission deadline.

Ms. Whitmarsh responded that it is preferable to do the budget on the budget cycle; however, it is possible to do a supplemental budget around a specific initiative.

Mr. Cameron discussed the breakdown of the appropriated budget request, including staffing, which drives travel and equipment; contracts, which include professional services, audits, speakers, education and headhunter services; and goods and services, which includes building leases, supplies, other agency services, and training and development. He said the non-appropriated budget request is a more streamlined process, but there are many variables in estimating costs with some being out of staff's control, others unknown, and some that will change based on future decisions and circumstances. He explained that there are anticipated needs for consulting services due to the complexities of the real estate, private equity, and innovation portfolios, and legal fees related to the need for more services and increasing complexity of legal agreements, variety of deal structures and as the portfolios continue to grow.

Discussions ensued around the legal fees paid to the Office of the Attorney General and outside legal counsel in connection with the addition of an asset class or alternative asset transactions, and the provision for the expenses in the budget. Ms. Whitmarsh stated that she asked Ms. Will to focus on investment structures in the tangible assets annual plan at the July Board meeting to show the variety of structures and legal agreements being entered into by the WSIB.

Mr. Cameron discussed the use of consultants by the various agency units and the increase in this expense directly related to staff additions. He also explained the increasing expense related to memberships, due to the addition of organizations such as the Russell 20/20 group and the World Economic Forum.

Discussion ensued regarding the budget reporting format and the ability to track the budget by asset class moving forward, the number of anticipated private equity deals to be done in a given year, and the importance of not spending excess funds resulting from a lower transaction volume.

Mr. Bruebaker explained that the non-appropriated budget does correlate to the appropriated budget. The non-appropriated budget is based on assets under management, so if the market were to crash, the WSIB may pay a lot less in fees and it may appear that a lot of money was saved, but that is not necessarily a good thing. This is also true for the other direction; if the WSIB is way over budget, it might actually be a good thing, because the market ran up.

Mr. Cameron added that private equity is not only based on investment activity but also on distributions when there are realizations in the portfolio.

Mr. Sacks said the budget lines are a great way to show the reason for projecting to spend more, and he would like to see variances by asset class.

Ms. Whitmarsh commented that private equity is a stay-the-course strategy, and the WSIB has not increased the allocation to this asset class, ideally putting about the same amount of money to use year-to-year.

Ms. Verme stated that 4 years ago she had to build capacity into the budget because at that time private equity was very active, but this time it was estimated that there is enough capacity.

Mr. Cameron discussed the proportional relationship between the appropriated and the non-appropriated budget expenses.

**Mr. Fox moved that the Administrative Committee recommend the Board approve the proposed 2017-2019 operating biennial budget. Mr. Masten seconded, and the motion carried unanimously.**

#### **Assistant Attorney General's Report**

Ms. Lobdell reported on three matters in litigation Petrobras, British Petroleum, and Fortis, matters in which the WSIB has either filed litigation or is participating as a passive plaintiff. Regarding Petrobras, the discovery has been completed. She added that WSIB staff was fabulous to work with. She said the British Petroleum class action suit has settled, so attention has turned to WSIB litigation and discovery will be

starting. She reported that Fortis was the first foreign litigation that the WSIB participated in, and it has been settled in a Dutch Court for \$1.2 billion. Ms. Lobdell mentioned the WSIB's participation in an amicus brief on behalf of institutional investors in the North Sound litigation against Merck dealing with the Indy Mac case regarding tolling. She said the WSIB participated on behalf of institutional investors to encourage the Third Circuit District Court to adopt tolling.

### **Executive Session**

Chair Frost announced the Committee will now go into executive session to review and discuss the performance of a public employee. The executive session is expected to last about 15 minutes, at which time the Board will reconvene in open session.

[The Committee went into executive session at 9:22 a.m., and reconvened in open session at 9:42 a.m.]

### **Other Items**

There was no further business to come before the Committee, and the meeting adjourned at 9:42 a.m.