

**STATE OF WASHINGTON
STATE INVESTMENT BOARD**

Audit Committee Meeting
Minutes

December 6, 2004

The Audit Committee met in open public session at 8:33 A.M. at the Washington State Investment Board (WSIB) office at 2100 Evergreen Park Drive SW, Olympia, Washington.

Committee Members Present: John Charles, Chair
 Debbie Brookman
 Charlie Kaminski
 George Masten
 Bob Nakahara
 Dave Scott

Others Present: Joe Dear, Executive Director
 Gary Bruebaker, Chief Investment Officer
 Theresa Whitmarsh, Deputy Director for Operations
 Liz Mendizabal, Public Affairs Director
 Beth Vandehey, Internal Auditor
 Nancy Calkins, Senior Investment Officer – Public Equity
 Linda Lester, Investment Officer – Public Equity
 Christina Blue, Administrative Assistant
 Paul Silver, Office of the Attorney General

[Names of other individuals attending the meeting are not included in the minutes, but are listed in the permanent record.]

Chair Charles called the meeting to order at 8:33 A.M., and identified Committee members present.

ADOPTION OF MINUTES – NOVEMBER 2, 2004

Ms. Brookman moved to approve the November 2, 2004, Audit Committee meeting minutes. Mr. Masten seconded and the motion passed unanimously.

Mr. Scott arrived at the meeting at 8:35 AM

OVERVIEW OF PROXY VOTING FIRMS – GLASS LEWIS & CO. AND INVESTOR RESPONSIBILITY RESEARCH CENTER

Ms. Calkins introduced Mr. Kevin Cameron, Glass Lewis & Co (GL). Mr. Cameron discussed the proxy voting process. Public companies, under the Securities Exchange Commission (SEC) rules are required to have an annual meeting within six months of the fiscal year end and the proxy needs to be drafted and filed with the SEC roughly 60 days before the annual meeting. Eighty-five percent of most proxy voting occurs during March through the first week in May. It is hard for plan sponsors to staff up for a one time a year task, therefore, service providers such as GL and Investor Responsibility Research Center (IRRC) are retained to make recommendations and to vote the proxies. Since GL is making recommendations for multiple investors and other large pension funds, it is easier to staff up for the proxies. GL writes up research on all the proxy topics received and on all the proposals and posts the research on their website. The WSIB staff can access the website to view upcoming meetings and recommended voting recommendations. Staff can then override the recommended vote or allow the vote to flow through. IRRC handles the proxy voting using the ADP system for processing.

PROXY VOTING GUIDELINES POLICY 2.05.200 REVIEW AND REVISION

Mr. Cameron presented the revised WSIB Proxy Voting policy. He recommended that the Strategic Role section of the policy provide the flexibility to deal with controversial issues on a case-by-case basis. He also stated that anyone with a bias could recuse themselves from any decision-making process. Chair Charles agreed and stated that Board members cannot have split loyalties because our duty is to make the most money for the beneficiaries of our retirement funds.

Mr. Kaminski and Chair Charles both asked about incorporating our guidance into our mutual fund investments since we are incurring the expense of voting the proxies. Mr. Cameron stated that could be the next evolution of the process; the first step is to get the WSIB's hands around the proxy voting process for the CTF funds. He further stated that the SEC requires mutual funds to disclose their votes and that the current managers may be currently following similar guidelines as were

presented today. Mr. Cameron recommended getting familiar with voting the domestic equity commingled funds and sending the WSIB Proxy Voting Policy to the mutual fund managers with a cover letter stating that the WSIB expects its mutual fund managers to follow the policy. Mr. Dear stated that the proxy voting policy will be reviewed annually and that currently, due to staff capacity, he would ask only that the WSIB's Proxy Voting policy be sent to mutual fund managers.

Chair Charles requested that a strengthening sentence be added to the mutual fund section on page four of the blue-lined version and that the policy/guidelines be sent to our current mutual fund managers. Chair Charles asked if the Committee agreed, which it did and staff affirmed it would make the change requested. Mr. Masten asked for the last sentence under International Equity to have "internationally" removed because there is not an international standard of best practices and suggested that the sentence just state "best practice." Chair Charles asked for clarification on voting all domestic equity proxies. Mr. Dear stated that it is all or nothing for domestic equities and proxy votes will be tracked.

Mr. Nakahara asked for an overview of the effects of Sarbanes-Oxley on proxy voting. Mr. Cameron provided the regulations per the SEC for procedural requirements and requirements that came out of Sarbanes. Mr. Nakahara expressed his concern over remaining in compliance if the regulations change. Mr. Masten asked if a sentence could be added (similar to other policies) that states if the laws or regulations change, those will take precedence over policy. Mr. Cameron recommended that language be added. Chair Charles requested that the WSIB staff add a sentence to that effect.

Mr. Scott left the meeting at 9:43 AM

Mr. Masten asked if GL tracks all the directors sitting on public company boards. Mr. Cameron stated that GL maintains a database on all public company Board members, how the Board member's company has performed, and any allegations against that company. This information is incorporated when preparing proxy recommendations. Mr. Nakahara asked if the Director's Performance criteria are absolute. Mr. Cameron stated attendance is critical and that the Audit Committee membership independence issue is one that should be paid special attention. Mr.

Cameron stated that it is up to the company's Audit Committee to ensure there are proper controls in place around processes.

Chair Charles asked for clarification on director age limits (page 8-9 of the blue-lined version) a subsection of the Mandatory Director Retirement provision section.

Mr. Masten moved to strike the last sentence under Director Age Limits. Ms. Brookman seconded with the comment that the sentence could be re-introduced later and the motion passed unanimously.

Mr. Kaminski pointed out that the comment on director term limits were a little strong, suggesting the change from "is appropriate" to "may be appropriate". Chair Charles asked for any concerns with that change and then asked staff to make the change.

The Committee took a break at 10:25 AM and resumed at 10:32 AM.

Mr. Nakahara left the meeting at 11:01 AM

Mr. Masten moved that the Audit Committee recommends that the Board adopt the revised Proxy Voting Policy 2.05.200 at its December 16, 2004 meeting. Ms. Brookman seconded and the motion passed unanimously.

OTHER ITEMS

There being no further business to come before the Committee, the meeting adjourned at 11:14 A.M.