

**WASHINGTON STATE INVESTMENT BOARD**  
**Board Meeting**  
**Minutes**

April 17, 2003

The Washington State Investment Board met in open public session at 9:35 a.m. in the boardroom at 2100 Evergreen Park Drive SW, Olympia, Washington.

Present:                    John Charles, Chair  
                                Charlie Kaminski  
                                Glenn Gorton  
                                John Magnuson  
                                George Masten  
                                Patrick McElligott  
                                Mike Murphy  
                                Bob Nakahara  
                                Lee Ann Prielipp, Vice Chair  
                                Debbie Brookman  
                                Jeffrey Hanna

Absent:                     Senator James West  
                                Representative Helen Sommers  
                                Paul Trause  
                                Jeff Seely

Also Present:              Joe Dear, Executive Director  
                                Gary Bruebaker, Chief Investment Officer  
                                Sue Hedrick, Executive Assistant  
                                Steve Draper, Senior Investment Officer, Real Estate  
                                Nancy Calkins, Senior Investment Officer, Public Equity  
                                Gary Gallinger, Investment Officer  
                                Beth Vandehey, Internal Auditor  
                                Tom Ruggels, Senior Investment Officer, Private Equity  
                                Bill Kennett, Senior Investment Officer, Fixed Income  
                                Diana Will, Investment Officer

                                Jeff Lane, Assistant Attorney General  
                                Evelyn Lopez, Assistant 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 9:35 a.m. and identified members in attendance.

## **ADOPTION OF MINUTES – March 20, 2003**

**Mr. McElligott moved to adopt the Board minutes of March 20, 2003. Ms. Prielipp seconded the motion.**

**The motion carried unanimously.**

## **PUBLIC COMMENT**

There was no public comment.

## **QUARTERLY PERFORMANCE REPORTS**

### **Real Estate - Staff**

Steve Draper provided the quarterly report for real estate. He said that returns remain very strong. He has been predicting for some time that investment returns would soften, and he is beginning to see that. He said they have very strong income for the portfolio. Staff does not anticipate negative returns, just lower than the double-digit returns earned over the last ten years. He commented on a few of the larger investments and on Union Square.

Mr. Draper reported the portfolio is outperforming the benchmark over all periods, although they expect the margin to narrow. Over the one-year period, it has a spread of over 600 basis points over NCREIF. He expects it to narrow over the short-term, but over the long-term, expects it to outperform the benchmark by 100 basis points.

Mr. Draper then discussed the composition of the portfolio. He said the office component continues to reduce in size. He believes there are some great sale opportunities, and the Board's partners are actively selling properties. He anticipates that office properties will continue to decline in the short-term. He sees an increase in the other component, which is now broken down to more specifically show this category entails debt investments, timber, land, hotels, miscellaneous investments and agriculture. Residential and industrial will increase over time, while we continue to reduce the office component.

In terms of geographic diversification, the portfolio continues to be focused on the best long-term growth markets, and will remain over-weighted to the West, and to a lesser extent, in the South. He sees many good opportunities occurring outside of the U.S. He expects the portfolio's foreign exposure to exceed the 25 percent guideline in the future.

## **ADMINISTRATIVE COMMITTEE REPORT**

Chair Charles said the Administrative Committee met prior to the Board meeting and received an update from the executive director on budget and staffing. The agency will end the biennium with about \$350,000 out of a \$13.3 million budget. Savings came primarily from vacancies.

The executive director is moving to fill three vacancies on the investment side. The building budget came in almost on target; it ended up being overspent by about \$1,500 out of a more than \$780,000 budget.

The agency's budget for the next biennium is before the Legislature. The Senate budget has a reduction for the WSIB of \$1 million and 4.6 FTEs; the House budget has a reduction of \$108,000 and one FTE.

Chair Charles reported the Committee also heard a report on the Capital Market Assumptions.

**He moved that the Board adopt the Capital Market Assumptions report. Mr. Masten seconded.**

Mr. Bruebaker said that the Capital Market Assumptions are used for any asset allocation studies that will be done for this year. The assumptions are updated once each year. They serve as the critical building blocks for strategic asset allocation modeling. They attempt to quantify the expected average annual return and risk level over the long run and the correlation between each asset class. The assumptions are not short-term forecasts; rather, they are based on historical asset class returns over various long time periods. He recommended that, before staff does the next asset allocation for the Commingled Trust Fund, the Board should have a belief-challenging workshop to discuss modern portfolio theory, and challenges to the orthodox view.

Mr. Bruebaker said the key change from last year is a reduction of return in each of the asset classes by 50 basis points other than real estate. This is largely due to the low federal funds rate and the effect it has on the base return of cash and fixed income securities. Real estate has been kept at the same level that was approved last year. The capital market assumptions will be used for asset allocation studies to be completed this year.

**The motion to adopt the Capital Market Assumptions as provided by staff carried unanimously.**

#### **PUBLIC MARKETS COMMITTEE REPORT**

Mr. Kaminski said that the Public Markets Committee met on April 1<sup>st</sup> and had another of the International asset class educational programs presented in roundtable format. Australia and Asia (without Japan) are looking good. State Street Bank discussed trends in securities lending. One of the things revealed during the discussion is that there might be alternatives that might provide a better risk return. Mr. Bruebaker said that State Street was asked to outline the pros and cons of Quality A and Quality D funds, as well as other recommendations on how to increase the return through securities lending, while also better managing the risk relative to it.

Mr. Kaminski said that the managers gave individual reports after the roundtable discussion. They underperformed for the year, but long-term performance is good. [For a more detailed report, please see the minutes of the April 1<sup>st</sup> Public Markets Committee meeting].

### **Daily Priced Investment Options Report**

Mr. Bruebaker said that the Savings Pool is up \$15.7 million, and is currently at \$540 million.

During this particular quarter, two Guaranteed Investment Contracts (GIC) contracts matured and staff placed an additional two. It currently has a little higher cash balance than staff normally likes to have, \$35 million, or about 6.5 percent of the fund. He said there is one placement that will settle on May 14; some of the funds will come from a maturing contract and the rest will come from cash.

After that settlement, cash will be back down to the 5 percent range. The Bond Fund is at \$280.5 million, up \$22.7 million or 8.8 percent from the previous quarter. We have slightly outperformed for the three months ended March 31<sup>st</sup>, but are down 45 basis points since inception. The short horizon fund is up \$391,000. The mid-horizon is up \$2.5 million, and the long-horizon is up \$1.9 million. Performance for the quarter is down slightly from the benchmark as well as down from inception to-date.

### **Monthly Investment Reports – Gary Bruebaker**

Mr. Bruebaker provided the March monthly performance report. The Commingled Trust Fund (CTF) investment return is up .4 percent for the month. For the month of February, it was down .3 percent. In Private Equity, no transactions closed. Draws and distributions are still down. U.S. Equities are up for the month 1.1 percent, and up for the current quarter to-date 3.66 percent. International Equity is down for the month 1.8 percent. Dresdner outperformed its benchmark with a negative 1.2 percent. Nicholas Applegate was the second best with a negative 1.28 percent. Schroeder was the worst performing manager with a negative 3.92 percent, underperforming the index by 106 basis points. Real Estate was up 3.6 percent for the month.

Total Assets Under Management are down \$96.3 million. The Labor and Industries fund is down \$151 million because of cash flows. The Commingled Retirement Fund is up \$8.3 million. We are within our long-term allocation policy ranges for all of the asset classes. For the month of March, all domestic indexes were up, all international indexes were down.

### **OTHER ITEMS**

Chair Charles read a letter of resignation from Ms. Prielipp, which said that she will be retiring from active service as a teacher on April 30, 2003. Since her retirement precludes her from continuing to serve on the Washington State Investment Board, she will end her term as a board member on that date as well. Mr. Charles read a letter of thanks and congratulations to Ms. Prielipp, and presented her with a gift on behalf of the Board.

### **ASSISTANT ATTORNEY GENERAL'S REPORT – EXECUTIVE SESSION**

Chair Charles said the Board would go into executive session. The purpose of the executive session was to discuss with legal counsel certain litigation to which the Board is a party, and certain potential litigation to which the Board is likely to become a party.

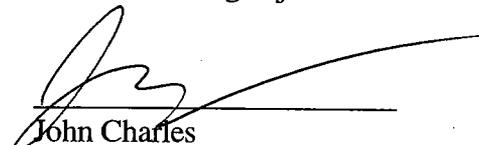
He said that public knowledge of this discussion was likely to result in adverse legal consequences to the Board, and he expected the executive session to last at least 15 minutes. At the end of the executive session, the Board would resume its open session. The Board would or would not then take action in open session upon matters discussed in the executive session. The Board then planned to adjourn its meeting.

[The open session concluded at 11:45 a.m. and the executive session convened immediately thereafter. The executive session concluded at 12:31 p.m. and the open public session reconvened immediately thereafter.]

**Ms. Prielipp moved that the Board authorize the Attorney General to take legal action if the conditions described by the Attorney General are met. Mr. McElligott seconded. Mr. Masten called for a roll call vote.**

**Ms. Brookman voted aye, Mr. Masten voted aye, Mr. McElligott voted aye, Treasurer Murphy voted no, Ms. Prielipp voted aye, Mr. Charles voted aye, and Mr. Gorton voted aye. The motion was approved.**

There being no further business to come before the Board, the meeting adjourned at 12:33 p.m.

  
John Charles  
Chair

ATTEST

  
Joseph A. Dear  
Executive Director