

WASHINGTON STATE INVESTMENT BOARD

Board Meeting Minutes

June 19, 2003

The Washington State Investment Board met in open public session at 9:33 a.m. in the boardroom at 2100 Evergreen Park Drive SW, Olympia, Washington.

Present:

John Charles, Chair
Debbie Brookman
Jeffrey Hanna
Charlie Kaminski
George Masten
Patrick McElligott
Mike Colleran
Bob Nakahara
Paul Trause
Glenn Gorton
Dave Scott
Jeff Seely
Representative Helen Sommers

Absent:

John Magnuson
Senator Joseph Zarelli

Also Present:

Joe Dear, Executive Director
Gary Bruebaker, Chief Investment Officer
Les Brodie, Acting Deputy Director for Operations
Sue Hedrick, Executive Assistant
Liz Mendizabal, Communications & Legislative Coordinator
Beth Vandehey, Internal Auditor
Bill Kennett, Senior Investment Officer, Fixed Income
Tom Ruggels, Senior Investment Officer, Private Equity
Steve Draper, Senior Investment Officer, Real Estate
Nancy Calkins, Senior Investment Officer, Public Equity
Linda Lester, Investment Officer, Public Equity
Diana Will, Investment Officer, Asset Allocation
Tom Bosworth, Investment Officer, Fixed Income
Steve Verschoor, Investment Accounting Controller
Erwin Vidallon, Finance Manager
Kristi Bromley, Administrative Assistant, Investments
Patricia Sheridan, Office Manager
Tish Day, Office Assistant Senior

Paul Silver, 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 and identified the members in attendance.

OATH OF OFFICE – DAVE SCOTT

Chair Charles gave the oath of office to Dave Scott. Mr. Scott said that he is the vice president of the Washington Education Association which represents 76,000 employees in the public schools in Washington State and it is an honor to serve in this very important role.

ADOPTION OF MINUTES – May 15, 2003 and May 15-16, 2003

Mr. Masten moved to adopt the Board minutes of May 15, 2003 and May 15-16, 2003. Mr. Trause seconded.

The motion to approve the minutes carried unanimously.

PUBLIC COMMENT

Representatives from the Service Employees Union (SEIU) – Marguerite Young of the Capital Stewardship Program, Debbie Foley, Secretary/Treasurer of SEIU Local #6, and Joyce Allen, a member of Local #6 – spoke to the Board. They are in the process of negotiating new janitorial service contracts, and asked the Board to send a signal to the building managers supporting fair wages and benefits for janitors at any properties in which the WSIB has an interest.

ADMINISTRATIVE COMMITTEE REPORT

Chair Charles gave the Administrative Committee report. One of the items discussed was the executive director's performance review. Mr. Charles said there will be two additional Committee meetings on this item. The next meeting will involve a more thorough discussion among the Committee members. Members of the Board were invited to participate in the process. They can provide comments to the Chair or other members of the Committee either verbally or in writing. The second meeting of the Committee will then be used to share the Board members' comments with Mr. Dear and to receive his comments.

Steve Miller from Miller & Miller presented the draft report on his Administrative Review. The Committee approved the report to be presented to the full board in final form. The initial response from Mr. Dear was that the recommendations could be put into practice and he and staff will implement them.

The Committee then had a presentation from Mr. Dear on administrative staff salary schedules. No action was taken.

PUBLIC MARKETS COMMITTEE REPORT

Investment Consultants Competitive Search Concept Document

Mr. Kaminski reported that the Public Markets Committee met on June 3, 2003, and had one action item for the Board. He said it is the Committee's recommendation that the Board approve the Investment Consultants Competitive Search Concept Document.

Mr. McElligott moved that the Board approve the Investment Consultants Competitive Search Concept Document. Mr. Colleran seconded.

Chair Charles suggested that a statement be added to the RFP to indicate that information submitted to the agency for this purpose will be considered public information. He also made one correction to the first page of the concept document. The sentence will be changed to read, "The WSIB manages the investment of defined-benefit retirement funds..."

The motion carried unanimously.

Mr. Kaminski said that the remainder of the meeting dealt with the continuing series of educational sessions on international equity investing. This month's session featured international style characteristics – growth versus value, active versus passive, and large versus small capitalization. Investment manager portfolio reviews followed the educational session.

PRIVATE MARKETS COMMITTEE REPORT

Real Estate Consultant Contract Extension

Mr. Masten reported that the Private Markets Committee had one action item for the Board, the extension of the real estate consultant's contract.

Mr. Masten moved that the Board authorize the executive director to extend the real estate consulting contract between the WSIB and Courtland Partners for a two-year extension, to June 30, 2005, as provided in the existing contract terms. Mr. Colleran seconded.

The motion carried unanimously.

AUDIT COMMITTEE REPORT

Internal Audit 2003-04 Commingled Monthly Bond Fund

Mr. Dear presented the 2003-04 internal audit of the Commingled Monthly Bond Fund for the Board's approval. No problems were identified other than more participants in the fund are needed in order to make it an efficient use of investment accounting resources. Mr. Dear said that more participants will be recruited.

Mr. Masten moved that the report be approved. Mr. Colleran seconded.

The motion carried unanimously.

Fiscal Year 2003-04 Audit Plan

Mr. Dear presented the internal auditor's fiscal year 2003-04 audit plan for the Board's approval. Mr. Dear said that areas that will be audited next year include private equity, Financial Control Systems (FCS), the quarterly investment reporting process, and real estate.

Mr. Masten moved that the Board accept the Audit Committee's recommendation to approve the Internal Audit Plan for 2003-04. Mr. Colleran seconded.

The motion carried unanimously.

EXECUTIVE STAFF'S REPORT

Executive Director's Report

Mr. Dear highlighted a few items from his monthly report, including the upcoming Board Governance Workshop, staff vacancies and expected hiring, completion of the Fixed Income Review by Callan Associates, and process improvements achieved by the two Breakthrough Teams.

The projected ending balance for the 2001-2003 biennial budget will be \$186,000, down from the \$216,000 estimated last month. The 2003-2005 biennial budget appropriates \$13,364,000 for the WSIB. Mr. Dear thanked Representative Sommers for her support of the Board's budget. He mentioned that \$100,000 of general fund-state money was added to the budget for contracting with a real estate investment consultant to prepare options and recommend investment strategies for surplus property at the five state residential habilitation centers.

Monthly Investment Reports – Gary Bruebaker

Mr. Bruebaker gave the monthly asset allocation report for the month of May. For the second month in a row, there was a positive return to the Commingled Retirement Trust Fund (CTF). The U.S. portion of Public Equity is up 6.1 percent for the month, up 11.26 percent year to-date. The non-U.S. portion is up 6.4 percent for the month, and up 7.82 percent year to-date. Fixed Income is up 2.83 percent for the month, 92 basis points over the index. It is up 94 basis points year to-date against the Lehman Universal. For Private Equity, draws for May were \$62 million. That's down from the average year to-date of \$83 million. Distributions for the month of May were \$102 million, up from our year to-date average of \$45 million. KKR sold 39.8 percent of the remaining common stock holdings in Willis, which was part of their '96 fund. Their cost was about \$299 million for that investment, the cash distributed back to all of the limited partners so far is over \$1.5 billion, and there is still another holding of slightly over a billion dollars of common stock yet to be

liquidated. The Hometown America purchase will give us about another 200 communities, mostly concentrated in Florida and Michigan. So, the results for this month are very good.

Assets Under Management (AUM) are at \$51.7 billion. Almost every single one of our funds is up. The AUM is up \$2 billion over the previous month. The CTF is at \$38.4 billion, up \$1.3 billion from April 30th. Real estate dropped below the range due to the financing of Union Square, but the combined targets are within policy ranges for all asset classes. The range for U.S. Equity and Private Equity is between 39 and 57 percent, and they are currently at 47.8 percent combined. Fixed Income and Real Estate combined are at 37 percent. The range is between 31 and 43 percent. In the capital market environment, the Wilshire 5000 is up 20.3 percent. The capital market returns for the month of May, the fiscal year and the one-year are all positive.

Mr. Colleran asked about the criminal investigations on Freddie Mac and whether this has had any impact on our portfolio. Bill Kennett responded that the agency exposure is a little over 3 percent, for Freddie Mac, it's a little over 1 percent. The Lehman Universal index had approximately 3.3 percent exposure to Freddie Mac, while the WSIB Fixed Income portfolio only had 0.8 percent as of April 30, 2003.

NOMINATION OF VICE CHAIR

Mr. McElligott asked if the election would be to fill out the remainder of Ms. Prielipp's term as vice chair or would be a new term. Chair Charles responded that it would be to fill out the remainder of her term as vice chair.

Mr. Trause nominated George Masten to fill the remainder of Lee Ann Prielipp's term as vice chair. The Board voted unanimously to approve Mr. Masten as vice chair.

Mr. McElligott suggested that when the next vote is taken in the fall, perhaps some of the newer members could be considered for the position as it has traditionally been considered a learning position for new members.

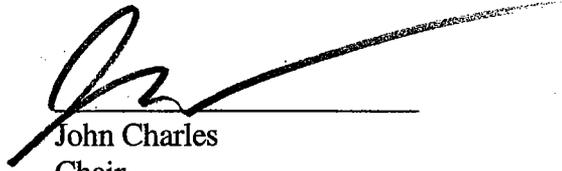
[A recess was taken at 10:30 a.m. and the open session reconvened at 10:38 a.m.]

ASSISTANT ATTORNEY GENERAL'S REPORT – EXECUTIVE SESSION

Chair Charles called the Board into executive session. He said the purpose was to discuss with legal counsel representing the Board matters concerning litigation and potential litigation which the Board may become or is likely to become a party. He said that, after the executive session, the Board would come back into open session.

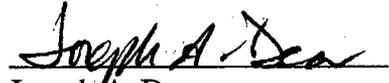
[The open session concluded at 10:38 a.m. and the executive session immediately convened. The executive session concluded at 11:07 a.m. and the open session reconvened immediately thereafter.]

There being no further business to come before the Board, the meeting adjourned at 11:08 a.m.



John Charles
Chair

ATTEST



Joseph A. Dear
Executive Director