WASHINGTON STATE INVESTMENT BOARD

Board Meeting Minutes
December 18, 2003

The Washington State Investment Board met in open public session at 9:40 a.m. in the boardroom at 2100 Evergreen Park Drive SW, Olympia, Washington.

Present:	George Masten, Chair Debbie Brookman John Charles Glenn Gorton Charlie Kaminski John Magnuson Patrick McElligott, Vice-Chair Mike Murphy Bob Nakahara Dave Scott Jeff Seely Representative Helen Sommers Paul Trause Senator Joseph Zarelli
Absent:	Jeff Hanna
Also Present:	Joe Dear, Executive Director Gary Bruebaker, Chief Investment Officer Sue Hedrick, Executive Assistant 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.]

Mr. Masten called the meeting to order at 9:41 a.m. and identified the members in attendance.

ADOPTION OF MINUTES – November 20, 2003

> **Mr. McElligott moved to adopt the Board minutes of November 20, 2003. Mr. Charles seconded. The motion carried unanimously.**

PUBLIC COMMENT

Rowland Thompson, executive director of the Allied Daily Newspapers of Washington, referenced a letter the board members received detailing comments and suggestions on the WSIB's draft public disclosure policy. Mr. Thompson said he understands the policy will be held over until next month. He commented on what the association would like to see changed in the draft and offered to work with a small committee of board members and staff on it.

INVESTMENT COST EFFECTIVENESS ANALYSIS

Joe Dear introduced Mike Heale of Cost Effectiveness Measurement, Inc (CEM). Mr. Dear said that CEM is under contract to the Board to provide benchmarking studies, and staff finds the report among the most useful they receive to compare how we operate with other pension funds.

Mr. Heale reviewed the cost effectiveness analysis benchmarking results for the five years ending Dec 31, 2002. He said the board's custom peer group includes about 14 public and corporate entities with assets ranging from $16 billion to $92 billion. The WSIB falls into the middle of the group with assets of $36 billion.

[Representative Sommers arrived at 9:58 a.m.]

Mr. Heale said that our five-year average policy return was 2.5 percent compared to the U.S. median of 2.6 percent and the peer median of 2.2 percent. Our 5-year average implementation value added was 1.4 percent compared to the U.S. median of 0.5 percent and the peer median of 0.7 percent. Our five-year average implementation risk was 2.0 percent compared to the U.S. median of 2.4 percent and the peer median of 1.6 percent. Our total costs for 2002 were 51 basis points. We were a low cost fund relative to our benchmark cost primarily because of our low cost implementation style. This was partially offset by the fact that we paid more than our peers for some services.

[The board took a break at 10:35 a.m. and reconvened at 10:44 a.m.]

LABOR AND INDUSTRIES (L&I) ANNUAL INVESTMENT FUNDS REVIEW

Gary Bruebaker introduced Scott Daniels, Susan Royles and Rob Painter from Conning Asset Management who gave the annual investment fund review of the L&I funds. Mr. Daniels discussed the broad investment strategy and objectives for the portfolio, how the portfolio fits into L&I's current financial status and how L&I compares to other state funds and a group of for-profit insurers. He also reviewed the long-term performance and some of the current issues that insurers are facing nationally.

Mr. Daniels said the WSIB's strategic objectives for the L&I funds are to maintain solvency of the funds, maintain premium rate stability, ensure sufficient assets are available to fund the ultimate liabilities, and, subject to those constraints, maximize return at a prudent level of risk.

In response to a question from Senator Zarelli, Mr. Bruebaker said that, comparing the equity of the L&I Funds to the equity of the Commingled Trust Fund for the last five years, the L&I funds performed marginally better.

ADMINISTRATIVE COMMITTEE REPORT

Mr. Masten reported on the Administrative Committee meeting that took place earlier in the morning. The Committee decided to defer consideration of the draft public disclosure policy until the January 15, 2004 Administrative Committee and Board meetings.

Another item on the committee agenda was the pre-approved board conference list.

Mr. Masten moved that the pre-approved board conference list for the 2004 calendar year be approved. Mr. Scott seconded. The motion carried unanimously.

Mr. Masten clarified the differences between the pre-approved board conference list and the recommended conference list. The latter list requires chair approval. Mr. Murphy suggested the State Street conference be included on the recommended list.

AUDIT COMMITTEE REPORT
Internal Audit 2004-02, Financial Control Systems
Mr. Charles reported that the Audit Committee met on December 3, 2003 and received Internal Audit Report 2004-02, Financial Control Systems.

Mr. Charles moved that the board accept Internal Audit Report 2004-02. Mr. Scott seconded. The motion carried unanimously.

Mr. Charles said the committee also discussed the procedures for nomination of non-voting members. The Committee concluded that, since Mr. Kaminski and Mr. Magnuson, whose terms will be ending soon, have indicated they would be willing to continue serving, it would be beneficial for them to stay in their positions while the staff polls board members and puts together a list of areas where the Board would benefit from advisory services and look at these in a more strategic manner. Mr. Charles said staff will be sending a memo to board members prior to the January 15, 2004 Board meeting.

PUBLIC MARKETS COMMITTEE REPORT
State Street Global Advisors Non-U.S. Equity Index Investment Management Contract Amendment and Extension
Mr. Gorton reported on the December Public Markets Committee meeting of December 2, 2003. There were two items for action.

Mr. Dear said he wanted to let the Board know there is a past connection for him with the Frank Russell Company. He was employed at the company as a government relations officer from March 2001 to November 2002. Due to the short tenure, he did not qualify for any of the equity programs that were offered to the associates, so he has no continuing economic interest in the company other than in retirement funds whose value fluctuates based on market conditions. He did not participate in the scoring of the proposals the WSIB received in response to the RFP for the transition managers.

On behalf of the Public Markets Committee's recommendation, Mr. Gorton moved that the Board authorize the executive director to amend and extend the contract with State Street Global Advisors for three months through June 30, 2004. Mr. Trause seconded. The motion passed unanimously.

Mr. Gorton said the Committee approved the meeting dates for 2004. He mentioned the dates and topics the Committee would be meeting on.

Mr. Bruebaker gave an update on a lawsuit filed by CalPERS against Spear, Leeds and Kellogg, a wholly-owned subsidiary of Goldman Sachs Group, Inc. and an investigation of this specialist firm and seven others by the Securities and Exchange Commission (SEC). Mr. Bruebaker said the investigation is ongoing, and there have been no findings and no fines presented.

[Ms. Brookman left at 11:49 a.m.]

Transition management manager RFP Finalists

> **Mr. Gorton moved that the Board approve the Public Markets' recommendation to approve Barclays Global Investors, Frank Russell Securities, Goldman, Sachs & Co., and State Street Corporation to participate in the transition management pool. Mr. Scott seconded. The motion passed unanimously.**

PRIVATE MARKETS COMMMITTEE REPORT
There was no report.

[The board took a break at 11:52 am and reconvened at 12:04 p.m.]

[Mr. Seely and Mr. Nakahara left at 11:56 a.m.]

EXECUTIVE STAFF'S REPORT
Executive Director's Report
Mr. Dear presented his report for December. He said there are still two vacancies in real estate but they have identified five promising candidates and have two interviews scheduled. There is also a finalist interview scheduled for the vacant fixed income investment officer position early next year.

The RFP for the active international core manager was issued on November 24, 2003. Staff has already screened potentially eligible managers and narrowed the list to eight. These will be further reduced to five who will be interviewed by the Public Markets Committee on January 13, 2004. The Board will be able to make a final decision on January 15.

The SEC is considering a proposed change in its rules to permit institutional investors access to the proxy for the purpose of nominating board members for corporations whose performance and governance is exceptionally poor. Mr. Dear said he joined in signing a letter with other large pension funds investor funds to send to the SEC.

Mr. Dear reviewed the proposed board and committee meeting schedule for 2004. He said he received useful comments from Jeff Hanna and Charlie Kaminski. He emphasized that the schedule maintains all of the customary decision-making activities by the Board and Committees, but in fewer meetings.

[Mr. Kaminski and Senator Zarelli left at 12:26 p.m.]

MONTHLY INVESTMENT REPORTS

Mr. Bruebaker presented the monthly asset allocation report as of November 30, 2003. The Wilshire 5000 shows the performance of 16.5 percent for the second quarter, 7.2 percent for the third quarter, and the current quarter through December 16 is a positive 8.6 percent. The last time we experienced three positive quarters was December 1998, March 1999 and June 1999.

The Wilshire outperformed the Russell for the month. Small cap continues to dominate in domestic equity. For international equities, it continues to be a great year for the international developed markets. Emerging markets also had a great year. In the international equities, value continues to dominate over growth.

For the Lehman Universal, just as with last month, corporate high yield as well as emerging markets continue to be the best performers. In the fixed income capital environment, the change this month is that the yield curve is right on top of last month as well as last year.

Assets under management were at $54.5 billion, up almost $600 million from last month. The Commingled Trust Fund (CTF) performance for U.S. equity is at 1.2 percent for the month. Relative to U.S. equity, the markets have enjoyed slight gains this month; our particular index fund earned 1.5 percent, which outperformed the index by six basis points for the month, and we are up 15 basis points year to-date over the index. International equity is at 2.2 percent. We outperformed the index by three 3 basis points for the month, but we have underperformed the index by 194 basis points year to-date.

Relative to fixed income, the CTF was slightly hurt by its shorter duration and the TIPS exposure. The treasury yield curve flattened with the long bond being the best performer during this time period. The two-, three- and five-year treasuries all had negative returns for the month. November was the thirteenth straight month that the aggregate credits outperformed like-duration treasuries. The CTF governments underperformed the index governments by seven basis points. The CTF credits underperformed by 11 basis points. Calendar year to-date, the CTF has earned 6.88 percent, outperforming the Universal and the Aggregate by 108 and 276 basis points, respectively through the close of markets yesterday. The Fixed Income group continues to have outstanding performance.

Private equity is reflected in a 1.6 percent return for the month. Draws were at $91 million. As compared to the average year-to-date of $64 million, of that, $33 million was from KKR and $58 million was from the rest of the portfolio. Distributions were at $80 million, up over the average of $70 million. Of the total distributions, $2 million came from KKR and the remaining $78 million came from the rest of the portfolio.

The real estate portfolio has returned 0.6 percent for the month.

As of November 30, 2003, we are within all policy ranges adopted by the Board for every asset class.

ASSISTANT ATTORNEY GENERAL'S REPORT

Mr. Masten called the board into executive session at 12:34 p.m. He said the purpose is to discuss litigation and potential litigation with legal counsel assigned to the Board since public knowledge regarding the discussion is likely to result in adverse legal or financial consequences to the WSIB. Mr. Masten said the executive session is expected to last until about 12:45 p.m., at which time the Board will reconvene to adjourn the meeting since no other matters need discussion or action by the Board.

[The executive session concluded at 12:47 p.m. and the open session reconvened immediately thereafter.]

There being no further business to come before the Board, the meeting adjourned at 12:47 p.m.

George Masten

George Masten
Chair

ATTEST

Joseph A. Dear

Joseph A. Dear
Executive Director