WASHINGTON STATE INVESTMENT BOARD

Board Meeting Minutes
April 15, 2004

The Washington State Investment Board met in open public session at 9:39 a.m. in the boardroom at 2100 Evergreen Park Drive SW, Olympia, Washington.

Present:	George Masten, Chair Debbie Brookman John Charles Glenn Gorton Jeff Hanna Charlie Kaminski John Magnuson Patrick McElligott, Vice-Chair Bob Nakahara Dave Scott Jeff Seely Senator Joseph Zarelli
Absent:	Mike Murphy Representative Helen Sommers Paul Trause
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 and identified the members in attendance.

ADOPTION OF MINUTES – February 19, 2004

> **Mr. McElligott moved to adopt the Board minutes of February 19, 2004. Mr. Gorton seconded. The motion carried unanimously.**

PUBLIC COMMENT
There was no public comment.

ADMINISTRATIVE COMMITTEE REPORT
Mr. Masten reported that the committee met in the morning and took action on two items – revision of Policy 2.01.100, investment officer compensation, and new salary ranges for investment staff based on a study by R.V. Kuhns & Associates.

Mr. Masten moved that the Board approve revised Policy 2.01.100 to create an assistant senior investment officer position. Ms. Brookman seconded. The motion passed unanimously.

Mr. Masten also moved that the Board adopt the new proposed salary ranges for investment officers to become effective June 15, 2004, and direct staff to provide 60-day notification of the new ranges to the appropriate parties. Mr. McElligott seconded. The motion passed unanimously.

PUBLIC MARKETS COMMITTEE REPORT

Active Value International Equity Investment Manager Finalist Selection

Mr. Gorton reported that, in July 2003, the Board approved changes to the structure of the retirement fund's international equity program. The active "core" international developed market equity managers were selected in January and the "passive" index and "enhanced" index international developed market equity managers were selected in February.

At the Public Markets Committee meeting held on Tuesday of last week, the committee interviewed five firms as potential managers for the active "value" international developed markets equity mandate. The firms interviewed were Boston Company Asset Management, LLC, Causeway Capital Management, LLC, Delaware International Advisers Ltd., LSV Asset Management, and Pyrford International, PLC.

After the interviews, staff and Callan Associates (Callan) independently indicated their preferences for the top two firms. The committee then had an in-depth discussion of the pros and cons of each of the firms as well as discussions of various combinations.

The committee then selected the following firms for the WSIB active "value" international developed markets equity mandate, subject to continuing due diligence and successful negotiation of acceptable terms and conditions: Delaware International Advisers, Ltd., and Causeway Capital Management, LLC. Site visits will be conducted and transition strategies will be developed with one of WSIB's transition managers.

Mr. Gorton moved that the Board approve the Public Markets Committee recommendation of Delaware International Advisers Ltd. and Causeway Capital Management, LLC as the apparently successful offerors for the active value international equity developed markets mandate, subject to continued due diligence and successful negotiation of terms and conditions. Mr. McElligott seconded. The motion passed unanimously.

Active Growth International Equity Investment Manager Finalist Selection

At the committee meeting on Wednesday of last week, the committee interviewed five firms as potential managers for the active "growth" international developed markets equity mandate. The firms interviewed were Artisan Partners, Ltd., Jarislowsky Fraser Ltd., Julius Baer Investment Management Inc., New Star Institutional Managers Ltd., and William Blair & Company.

After the interviews, staff and Callan Associates independently indicated their preferences for the top firm and discussed the merits of each firm with the Committee.

The Committee then selected the following firms for the WSIB active "growth" international developed markets equity mandate, subject to continuing due diligence and successful negotiation of acceptable terms and conditions: Julius Baer Investment Management Inc., and William Blair & Company. Site visits will be conducted and transition strategies will be developed with one of WSIB's transition managers.

> **Mr. Gorton moved that the Board approve the Public Markets Committee's recommendation of William Blair & Company and Julius Baer Investment Management Inc. as the apparently successful offerors for the active growth international equity developed markets mandate, subject to continued due diligence and successful negotiation of terms and conditions. Mr. Scott seconded. The motion passed unanimously.**

Update on Proxy Voting

At the Tuesday meeting last week, the committee discussed recommending that the WSIB join in withholding proxy votes for certain of Safeway Inc.'s directors in a "Vote No" campaign. The WSIB invests in commingled U.S. index funds with Barclays Global Investors (BGI) and Safeway Inc. stock is held in some of those portfolios. An in-depth discussion of how the WSIB holds domestic equities and whether we have the legal authority to direct BGI's proxy voting then took place. Mr. Gorton asked Mr. Dear to give the Board the latest status on the issue.

Mr. Dear said the Board's U.S. equity investments are in a commingled fund managed by BGI. Under the terms of the investment contract with them, BGI has the authority to vote the proxy for the board under the terms of their proxy voting guidelines. Mr. Dear asked Bill Song, the board's fiduciary counsel, to look at the issues associated with the proxy vote and he provided a memorandum that was distributed to the Public Markets Committee last week and to the board members in their meeting packets. The question, with respect to Safeway, is whether to send a letter to BGI that communicates the board's interest in this issue. Staff drafted a letter along with a number of materials that would be sent along with the letter. Mr. Dear said he also discussed the issue with Treasurer Murphy, who was unable to attend the board meeting. He referenced a letter in the packet containing Mr. Murphy's suggested revisions to the letter to BGI. Additionally, Mr. Hanna suggested a change to the letter. Mr. Charles said he supported the draft letter with Mr. Hanna's edits.

> **Mr. Charles moved that the draft letter to BGI as modified by Mr. Hanna be approved by the Board and sent to BGI. Ms. Brookman seconded. The motion passed unanimously.**

> **On behalf of the Public Markets Committee, Mr. Gorton moved that the Board direct the Audit Committee to review the proxy voting policy and recommend appropriate changes. Mr. Charles seconded. The motion passed unanimously.**

[The Board took a break at 10:04 a.m. and reconvened at 10:14 a.m.]

PRIVATE MARKETS COMMITTEE REPORT

Hellman and Friedman Capital Partners V, L.P. Investment Recommendation

Ms. Brookman said the Private Markets Committee met on April 1, 2004. At that meeting, staff and PCG presented an investment recommendation to invest up to $100 million in Hellman & Friedman Capital Partners V.

Hellman & Friedman Capital Partners V is a private equity fund with a target size of $3 billion that will invest primarily in the United States, the developed markets in Europe, and Australia. If approved, this will be a new general partner relationship for the Board. The management team is strong and experienced, with an excellent reputation in the industry. They have an outstanding investment track record. Since 1988, the group has invested $3.4 billion, generating realizations of $6.0 billion, a net internal rate of return of 23.4 percent, and a net total value multiple of 1.83x.

They have a proven, disciplined investment strategy focused in the services industries, such as media, financial services, professional services, and information services. The firm believes in a close alignment of interest with its investors, demonstrated by a minimum $150 million commitment to the fund by the general partners and their policy of not charging transaction or monitoring fees to their portfolio companies. The fund's differentiated strategy will provide diversification benefits within the large corporate finance portion of the portfolio.

> **On behalf of the Private Markets Committee, Ms. Brookman moved that the Board approve an investment of up to $100 million plus fees and expenses in Hellman & Friedman Capital Partners V, L. P., subject to final negotiation of terms and conditions. Mr. McElligott seconded. The motion passed unanimously.**

[Mr. Nakahara arrived at 10:16 am.]

EXECUTIVE STAFF'S REPORT

Executive Director's Report

Mr. Dear presented his report for April. He introduced Hanna Jirasetpatana, a new investment officer in the real estate program. He said that his executive assistant, Sue Hedrick, will be leaving shortly to work for Insurance Commissioner Mike Kreidler, and Kristi Walters will be taking her place on April 17.

MONTHLY INVESTMENT REPORTS

Mr. Bruebaker presented the monthly asset allocation report as of March 31, 2004. He highlighted the key points for the month. The assets under management are up by $322.5 million. U.S. equity had a negative return of 1.1 percent. However, we have added value of about 40 basis points over the benchmark for the year ended March 31, 2004. The non-U.S. equity returned 0.3 percent for the month. That was an underperformance of the benchmark by 25 basis points. Fixed income returned 0.1 percent for the month. Fixed income outperformed the Lehman Universal by 23 basis points, and outperformed the Lehman Aggregate by 28 basis points. The one-year performance has outperformed the Universal by 101 basis points. The CTF was hurt during this month slightly by its short duration. Treasury yields declined with the ten-year and the long bond being the best

performers for the month. CTF Governments outperformed the index governments by 28 basis points due primarily to the very good performance of the TIPS within the portfolio. CTF Credits outperformed by 20 basis points due to security selection while Securitized outperformed by 17 basis points. Private equity was the star for the month at 6.1 percent. Draws were at $89 million, all from the LP portfolio. Distributions were at $294 million for the month. The average is $190 million. No investments were approved or closed for the month. Real estate returned 2.9 percent for the month. Real estate has dropped below the target asset allocation range; however, fixed income and real estate combined are within the allowable range.

ASSISTANT ATTORNEY GENERAL'S REPORT
There was no report.

EDUCATIONAL SESSION ON STRATEGIC ASSET ALLOCATION
Mr. Dear introduced Matt Smith, the state actuary and Diana Will, the WSIB's investment officer for asset allocation. Mr. Smith discussed assets and retirement liabilities and went over the types of actuarial liabilities and their uses.

Diana Will gave a presentation on asset allocation. She discussed what asset allocation is, why it is important, key objectives and the efficient frontier, and the difference between strategic and tactical asset allocation. She defined what risk is, and listed several key types such as investment, plan, enterprise and assumption risk. She mentioned several upcoming educational events for the board in the next few months.

There being no further business to come before the Board, the meeting adjourned at 11:36 p.m.

George Masten
Chair

ATTEST

Joseph A. Dear
Executive Director