WASHINGTON STATE INVESTMENT BOARD

Board Meeting Minutes
June 17, 2004

The Washington State Investment Board met in open public session at 9:32 A.M. in the boardroom at 2100 Evergreen Park Drive SW, Olympia, Washington.

Present:	George Masten, Chair Patrick McElligott, Vice-Chair Debbie Brookman Glenn Gorton Jeff Hanna Charlie Kaminski John Magnuson Dave Scott Jeff Seely Representative Helen Sommers Paul Trause
Absent:	John Charles Mike Murphy Bob Nakahara Senator Joseph Zarelli
Also Present:	Joe Dear, Executive Director Gary Bruebaker, Chief Investment Officer Kristi Walters, Executive Assistant Paul Silver, Assistant Attorney General Michael Moehle, Mellon Human Resources & Investor Solutions Steven Drake, Mellon Human Resources & Investor Solutions William Song, Song Mondress PLLC

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

Chair Masten called the meeting to order and roll call was taken.

ADOPTION OF MINUTES – MAY 20, 2004

Representative Sommers moved to adopt the Board minutes of May 20, 2004. Vice Chair McElligott seconded.

Mr. Kaminski noted a correction on page nine, to reflect that the Audit Committee interviewed four, not two, applicants, including Mr. Magnuson and Mr. Kaminski.

The motion to adopt the May 20, 2004 minutes, as amended, carried unanimously.

PUBLIC COMMENT

There was no public comment.

CASH FLOW STUDY

Gary Bruebaker introduced Michael Moehle and Steven Drake of Mellon Human Resources & Investor Solutions, formerly known as Buck Consultants. He said that Mellon would present their cash flow study based on actual transactions experienced after the Public Employees Retirement System Plan 3 window closed. Staff asked Mellon to prepare 20-year projections based on input from the State Actuary using two contribution scenarios (no rate increases except for salary and membership growth, and projected rate increases under current actuarial assumptions and methods) and three different return assumptions (baseline, optimistic, and pessimistic).

Mr. Moehle described Mellon's cash flow projection process and components for the defined benefit and defined contribution plans. Mr. Drake described the assumptions for plans selected by new entrants and said that the distribution is expected to remain stable. Mr. Drake described the actuarial, demographic and economic assumptions used in the study. He also described the assumptions used for current and recalculated contribution rates and how those were affected by inputting low, expected and high return assumptions over the 20-year period. Mr. Bruebaker emphasized that, while the cash flow study provides 20-year projections, the focus is on the four-year projection because that is how often the Board performs its asset allocation study.

ADMINISTRATIVE COMMITTEE REPORT

Board Operations Policy 2.00.210 Revision

Chair Masten said that the Administrative Committee reviewed staff revisions to the Board Operations policy 2.00.210, which incorporates the standalone teleconferencing policy.

Chair Masten moved that the Board accept the Administrative Committee's recommendation to adopt the revised Board Operations Policy 2.00.210. Vice Chair McElligott seconded.

Chair Masten said that the revised policy does not change current operations.

The above motion carried unanimously.

2005 – 2007 Budget Presentation
Mr. Dear reviewed the proposed budget for 2005-2007, which would add eight investment officers, two information technology staff and two support FTEs. Three initiatives are included: investment officer staffing needs, corporate governance, and information systems decision support and analysis. The proposed budget would increase appropriated operating costs from 1.29 basis points (bps) to 1.33 bps. The current total operating cost of the WSIB is 40.3 basis points (bps).
Mr. Kaminski, Mr. Seely, and Mr. Magnuson voiced their support of the budget initiatives

> **Chair Masten moved that the Board accept the Administrative Committee's recommendation to approve the proposed budget for the 2005-2007 biennium. Mr. Scott seconded and the motion carried unanimously.**

[The Board recessed at 10:32 A.M. and reconvened in open session at 10:44 A.M.]

AUDIT COMMITTEE REPORT

Nonvoting Board Member Candidate Recommendation
Chair Masten said that the Audit Committee met on June 1 and interviewed candidates interested in serving as nonvoting members of the Board. The Committee interviewed two incumbents and two new applicants, V'Ella Warren and Robert Flowers. The Committee recommended that Ms. Warren and Mr. Flowers be placed on a list of potential appointees in case of a sudden future vacancy and recommended the reappointment of Mr. Magnuson and Mr. Kaminski to their nonvoting positions on the Board for three years.

> **Chair Masten moved that the Board accept the Audit Committee's recommendation to reappoint Mr. Charlie Kaminski and Mr. John Magnuson as nonvoting members of the Board with new terms set to expire on December 31, 2006. Vice Chair McElligott seconded and the motion carried unanimously.**

PUBLIC MARKETS COMMITTEE REPORT

Investment Recommendation – Active Value International Equity – LSV Asset Management
Mr. Gorton reported that the Board selected Delaware International Advisers and Causeway Capital Management for the international equity value mandate at its April meeting. While conducting due diligence with Causeway, staff discovered that they did not meet the minimum qualification related to three years of AIMR compliant performance. This was reported by Causeway to Callan during the early stages of the search, but the information was incorrectly listed in their database due to a system error. Causeway can no longer be considered for the value mandate since they do not meet minimum qualifications. The Public Markets Committee met on June 15 to discuss staff's recommendation to select LSV Asset Management as the apparently successful offeror and determined that there is no benefit in re-running the RFP process.

> **Mr. Gorton moved that the Board select LSV Asset Management as an apparently successful offeror for the active value international equity developed markets mandate, subject to continued due diligence and successful negotiation of terms and conditions. Vice Chair McElligott seconded and the motion carried unanimously.**

PRIVATE MARKETS COMMITTEE REPORT

Private Equity – OCM Opportunities Fund V, L.P. – Investment Recommendation
Ms. Brookman reported that the Private Markets Committee met on June 3, 2004. At that meeting, staff and Pacific Corporate Group (PCG) presented an investment recommendation to invest up to $50 million, plus fees and expenses, in OCM Opportunities Fund V, L.P.

OCM V will be a non-control distressed debt fund with a target size of $1 billion, emphasizing investments in under-valued public bonds and bank debt of financially distressed companies in which value can be created through management of a bankruptcy reorganization or restructuring outside bankruptcy.

The WSIB is an existing investor in four prior OCM Opportunities Funds, with commitments of $38.6 million to Fund I in 1995; $75 million to Fund II in 1997; $125 million to Fund III in 1999; and $100 million to Fund IV in 2001.

Oaktree has one of the largest, most experienced distressed debt teams in the industry. The team has proven its ability to add value through strong fundamental analysis, skillful price negotiation, and active participation in the restructuring process. Oaktree has a strong, long-term track record with substantial realizations. Since 1995, the team has invested $7.7 billion of committed capital generating realizations of $11.5 billion and an aggregate net IRR of 10.9 percent. The investment is an excellent fit within the private equity portfolio, providing relatively low-risk diversification.

> **Ms. Brookman moved that the Board approve the Private Markets Committee's recommendation to approve an investment of up to $50 million, plus fees and expenses, in OCM Opportunities Fund V, L.P., to be allocated as follows: up to $30 million in OCM V and up to an additional $20 million in OCM Vb if raised within one year of the final close of OCM V, subject to final negotiation of terms and conditions. Vice Chair McElligott seconded and the motion carried unanimously.**

Private Equity – Oak Investment Partners XI, L.P. – Investment Recommendation
Ms. Brookman reported that staff and PCG presented an investment recommendation to invest up to $100 million, plus fees and expenses, in Oak Investment Partners XI, L.P.

Oak XI will be a multi-stage venture capital fund with a target size of $1.25 billion, and will focus primarily on investments in information technology, communications, financial services technology, healthcare services, and retail. Approximately 30 percent of the fund will be targeted to traditional venture capital opportunities, and the remaining 70 percent will be targeted to more mature "special situations" including recapitalizations, spin-offs, buyouts, and growth equity.

Oak is an existing general partner relationship for the WSIB. Previous commitments include $20 million to Oak VIII in 1998, $60 million to Oak IX in 1999, and $100 million to Oak X in 2000.

The management team is experienced and stable, with deep domain expertise in the sectors in which the fund will focus. The firm has a strong overall investment performance, achieved over a long time period with substantial realizations. In its 25-year history, Oak has generated an aggregate net IRR of 23.5 percent on nearly $2.9 billion of invested capital, including $4.4 billion in realizations. Oak's proven multi-stage investment strategy allows the flexibility to move between early-stage and later-stage investments as the risk/reward profile changes over time. The fund is an excellent fit in the private equity portfolio, providing venture capital and growth-oriented private equity exposure through a quality existing general partner relationship.

> **Ms. Brookman moved that the Board approve the Private Markets Committee's recommendation approve an investment of up to $100 million, plus fees and expenses, in Oak Investment Partners XI, L.P., subject to final negotiation of terms and conditions. Vice Chair McElligott seconded and the motion carried unanimously.**

Private Equity – Contract Extension – Shott Capital Management
Ms. Brookman introduced the contract extension recommendation for Shott Capital Management. Shott provides comprehensive post-venture distribution management services to oversee and manage the liquidation of publicly traded securities resulting from private equity investment activities. The current contract expires December 31, 2004, and the final one-year extension is available through December 31, 2005.

> **Mr. Brookman moved that the Board accept the Private Markets Committee's recommendation to approve the final one-year extension of the Shott Capital management contract through December 31, 2005. Vice Chair McElligott seconded and the motion carried unanimously.**

Private Equity – Contract Extension – Pacific Corporate Group
Ms. Brookman introduced the contract extension recommendation for PCG, the Board's private equity consultant. The current contract expires December 31, 2004, and the final one-year extension is available through December 31, 2005. Ms. Brookman said that PCG's performance has been more than satisfactory.

> **Ms. Brookman moved that the Board accept the Private Markets Committee's recommendation to approve the final one-year extension of the Pacific Corporate Group contract through December 31, 2005. Vice Chair McElligott seconded and the motion carried unanimously.**

EXECUTIVE STAFF'S REPORT

Executive Director's Report
Mr. Dear presented his report for June. He said that members are encouraged to attend ethics training offered in July. There will be no regular Board meeting in July. The Board will have an off-site meeting on July 22 and 23.

Monthly Investment Report
Mr. Bruebaker provided the CTF monthly investment report. He said that if the current quarter ends positive, it would represent the fifth quarter in a row of positive performance. For the month, U.S. equity returned 1.4 percent, outperforming the benchmark by 3 bps and added value of 26 bps for the year ended May 31. International equity returned 0.1 percent, underperforming the benchmark by 24 bps. Fixed income was down by 0.3 percent, outperforming the Lehman Universal by 25 bps and Lehman Aggregate by 14 bps for the month, and the one-year performance has outperformed the Lehman Universal by 69 bps. The CTF was helped by fixed income by its shorter duration. The CTF governments outperformed the index governments by 126 bps, due mostly to the TIPS exposure; the CTF credits outperformed by 7 bps, due to duration and security selection; and securitized underperformed 20 bps due to CMOs. Private equity lost 0.9 percent for the month. Private equity draws and distributions for May were much lower than in recent months. No investments closed during the month. Real estate, when combined with fixed income, continues to be within the Board approved target range. All other asset classes are within approved ranges.

ASSISTANT ATTORNEY GENERAL'S REPORT
Chair Masten called the Board into executive session at 11:11 A.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. Chair Masten estimated that the executive session would last approximately ten minutes, and after completion of the executive session, the Board would resume its open public session and that no further actions were anticipated.

[Mr. Seely was no longer in attendance at 12:19 P.M.]

[The executive session concluded at 12:25 p.m. and the open session reconvened immediately thereafter].

OTHER ITEMS
Chair Masten reminded members that an educational session on Investing in Asia would commence immediately following the Board meeting.

There was no further business to come before the Board. The meeting adjourned at 12:27 P.M.

George Masten
Chair

ATTEST

Joseph A. Dear
Executive Director