WASHINGTON STATE INVESTMENT BOARD

Board Meeting Minutes
July 22-23, 2004

The Washington State Investment Board met in open public session at 2:10 P.M. in the Jefferson Room at 1131 SW Skamania Lodge Way, Stevenson, Washington.

Present:	George Masten, Chair Patrick McElligott, Vice-Chair Debbie Brookman John Charles Glenn Gorton Jeff Hanna Charlie Kaminski John Magnuson Mike Murphy Bob Nakahara Dave Scott Representative Helen Sommers Paul Trause
Absent:	Jeff Seely Senator Joseph Zarelli
Also Present:	Joe Dear, Executive Director Gary Bruebaker, Chief Investment Officer Kristi Walters, Executive Assistant Paul Silver, Assistant Attorney General Woody Brock, Strategic Economic Decisions, Inc. Ernie Ankrim, Russell Investment Group Fred Dopfel, Barclays Global Investors Jim Keagy, Barclays Global Investors Scott McDermott, Goldman Sachs Asset Management Allan Emkin, Pension Consulting Alliance, Inc. Matt Smith, Office of the State Actuary Bill Song, Song Mondress PLLC

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

July 22, 2004
Chair Masten called the meeting to order and roll call was taken.

REAPPOINTMENT OATHS OF OFFICE

Chair Masten administered reappointment oaths of office to Charlie Kaminski and John Magnuson for their three-year terms expiring December 31, 2006.

[Mr. McElligott was in attendance at 2:15 P.M.]

WOODY BROCK PRESENTATION

Dr. Brock's presentation discussed the role of inelasticity of supply and demand in the oil and gas market, the anatomy of the current U.S. business cycle and three widespread mistakes relating to the 2001-2004 U.S. business cycle. He discussed the changing correlation structure of global equity markets, new prospects for truly global asset allocation, and market-timing strategies.

[The Board recessed at 3:45 P.M. and reconvened at 3:58 P.M.]

BUSINESS MEETING

Update on Strategic Plan

Mr. Dear provided a mid-year review of the agency's strategic plan. He discussed the current results and reviewed several scorecard projects. He described challenges facing the WSIB and discussed the next steps for the current year.

Personnel Review

The Board discussed its current challenges and shared perspectives on lessons learned from past issues.

[The Board recessed at 5:40 P.M. and reconvened at 7:10 P.M.]

ERNIE ANKRIM PRESENTATION

Perspectives for Public Fund Trustees

Ernie Ankrim gave a dinner presentation on the *Current State of Asset Allocation.*

[The Board adjourned at 8:40 P.M.]

July 23, 2004

[The Board reconvened in open public session at 8:35 A.M.]

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

[Treasurer Murphy and Mr. Scott were not in attendance at 8:35 A.M.]

STRATEGIC ASSET ALLOCATION PANEL

Mr. Bruebaker introduced the strategic asset allocation presenters: Fred Dopfel, Barclays Global Investors, and Scott McDermott, Goldman Sachs Asset Management. He said that Allan Emkin of Pension Consulting Alliance would provide commentary on the presentations along with a concise summary of the issues to be considered.

Mr. Dopfel gave a presentation on *"Liability Relative" Strategic Asset Allocation.* He reviewed traditional "asset-only" allocation, introduced "liability-relative" investing and surplus optimization,

and discussed setting policy and implications for the plan's future funded ratio and the role of active management.

Mr. McDermott gave a presentation on *Strategic Asset Allocation: The Impact of Pension Liabilities*. He discussed the impact of liabilities, how liability risk impacts contributions, and strategies for managing the interest rate of liabilities. He described how peer groups are managing liability risk and detailed an asset/liability decision-making strategy.

[Mr. Scott was in attendance at 10:00 A.M.]
[The Board recessed at 10:40 A.M. and reconvened at 10:55 A.M.]

DISCUSSION ON STRATEGIC ASSET ALLOCATION

Mr. Bruebaker commented on the relationship of the investment, funding and benefit policies and the impact of various goals. He also commented on the various discussions and approaches to consider for the asset allocation study.

Mr. Emkin said it is key for the WSIB to have a policy discussion about its relationship to the public pension plan. He commented on the WSIB's current strategy and its challenges in considering liabilities, generating alpha, and being innovative.

Mr. Smith commented on current policy discussions regarding rate stability. He discussed surplus and interest rate risks on unfunded liabilities. A discussion ensued regarding contribution rates.

Mr. Charles shared his view on perception risks and the need for education. A discussion ensued regarding the Board's statutory structure and further engaging the legislature in asset allocation strategies.

[The Board recessed at 11:45 A.M. and reconvened at 12:35 P.M.]
[Mr. Magnuson and Mr. Nakahara were not in attendance at 12:35 P.M.]

EDUCATION SESSION ON FIDUCIARY RESPONSIBILITIES

The Board discussed the fiduciary considerations involved in a set of hypothetical situations distributed by Bill Song.

[Representative Sommers was not in attendance at 12:50 P.M.]

There was no further discussion. The meeting adjourned at 1:43 P.M.

George Masten
Chair

ATTEST

Joseph A. Dear
Executive Director