# WASHINGTON STATE INVESTMENT BOARD

## Board Meeting Minutes
## January 20, 2005

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<br>Debbie Brookman<br>John Charles<br>Glenn Gorton<br>John Magnuson<br>Mike Murphy<br>Bob Nakahara<br>Jeff Seely<br>Dave Scott<br>Paul Trause |
| Absent: | Patrick McElligott, Vice-Chair<br>Jeff Hanna<br>Charlie Kaminski<br>Representative Helen Sommers<br>Senator Joseph Zarelli |
| Also Present: | Joe Dear, Executive Director<br>Gary Bruebaker, Chief Investment Officer<br>Kristi Walters, Executive Assistant<br>Tom Ruggels, Senior Investment Officer-Private Equity<br>Steve Draper, Senior Investment Officer-Real Estate<br>Bill Kennett, Senior Investment Officer-Fixed Income<br>Maria Tosteson Rosen, Assistant Senior Investment Officer-Fixed Income<br>Janet Kruzel, Investment Officer-Private Equity<br>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 Masten called the meeting to order and roll call was taken.

## REAPPOINTMENT OATHS OF OFFICE

Mr. Charles administered the reappointment oaths of office to George Masten, Glenn Gorton, and Dave Scott for their three-year terms expiring December 31, 2007.

## ADOPTION OF MINUTES – DECEMBER 16, 2004

**Mr. Charles moved to adopt the minutes of the December 16, 2004, Board meeting. Ms. Brookman seconded and the motion was unanimously approved.**

## PUBLIC COMMENT

There was no public comment.

## ECONOMICALLY TARGETED INVESTMENTS ANNUAL REPORT

Mr. Dear introduced Janet Kruzel who was hired to implement and facilitate the economically targeted investment (ETI) policy and processes. Ms. Kruzel reviewed the ETI policy requirements, implementation, and the focus on regional relationships and activities in 2004. She described the typical ETI fund-of-fund program objectives.

Ms. Kruzel said that, for the general partner (GP) survey, Washington-based firms are defined as companies headquartered in Washington. Treasurer Murphy asked why the number of GPs included in the report does not equal the current number of relationships. Ms. Kruzel explained that only GPs seeking new deals in the U.S. were surveyed. Treasurer Murphy asked why 13 of those GPs did not look at deals in Washington. Ms. Kruzel explained that those GPs may be regional-specific investors that invest in geographies outside of the Pacific Northwest. Per Mr. Nakahara's request, Ms. Kruzel agreed to determine the percentage of the 30 completed deals that were follow-ons versus new deals.

Ms. Kruzel reviewed the dollars invested, number of deals, and the gross state product (GSP) of the Northwest region, which is 4.16 percent. She reviewed Washington investments in all asset classes within the WSIB portfolio and provided a breakdown of the number of funds, GPs, and industries within private equity investments.

A discussion ensued about leveraging in-state versus out-of-state dollars, and determining what percent of an entire deal is represented in the investment by WSIB GPs, what percent of the deal comes from other Washington-based firms, and what percent is drawn from out-of-state sources. Mr. Trause and Treasurer Murphy suggested that the WSIB should determine the leveraged dollars (total investment that the WSIB is a part of as a percent of the total dollars invested by all funds). It was also suggested that international private equity investments might be removed from the calculations when measuring Washington-based investments as a percent of all WSIB private equity investments for clarity.

Ms. Kruzel reviewed the status of dollars invested in Washington by WSIB's GPs. Mr. Dear emphasized the importance of selecting managers in the top quartile. Treasurer Murphy suggested that slide 14 of the presentation would be more relevant if the data were displayed by internal rate of return (IRR). Mr. Bruebaker said that information on IRR would be added and detailed in next year's report, if it is available.

Ms. Kruzel summarized that the WSIB would continue its current outreach efforts, focus on relationships, analyze fundings, and facilitate small GP discussions over the next year.

Mr. Seely complimented Ms. Kruzel on the ETI meetings summary handout. Ms. Kruzel asked that Board members tell her if they are aware of any groups within the state that have not yet been contacted by the WSIB.

Mr. Charles asked Mr. Dear to summarize the ETI information he has shared with legislators. Mr. Dear responded: of our total assets, three percent is in the state of Washington and Washington represents 2.2 percent of the national economy. So, we're overweight in our investments in the state; primarily because of real estate investment. With respect to venture capital, $13.3 million of the $631.7 million (newly invested by the WSIB in private equity in fiscal 2004) is invested in Washington from WSIB investment partners. Most importantly, our mandate is to make eight percent, so that the assumptions you use for financing the pension systems hold true. We have a single standard for evaluating investments. That is, is it prudent and is it in the best interest of the beneficiaries of the state? We are an investment organization, not an economic development agency.

## PRIVATE MARKETS COMMITTEE REPORT – PRIVATE EQUITY CONSULTANT RFP CONCEPT DOCUMENT

Ms. Brookman reported that the Private Markets Committee met on January 6. It considered the Private Equity Consultant Request for Proposal (RFP) Concept Document. Ms. Brookman said that the Board approved the final one-year extension for the private equity consultant contract last June and the contract expires December 2005. If approved, the RFP will be released in February with responses due in March, and the Private Markets Committee would interview finalists at its May meeting. Ms. Brookman described that the concept document is structured so that qualified responding firms could bid on consulting services, back office services, or both.

> **Ms. Brookman moved that the Board accept the Private Market Committee's recommendation to authorize the issuance of a Request for Proposal for general private equity consulting services, and that the Request for Proposal reflect the scope of services and terms consistent with the Concept Document. Treasurer Murphy seconded.**

Treasurer Murphy asked how many firms are expected to respond. Mr. Bruebaker indicated that there are three that he is currently aware of and staff hopes to solicit more firms.

> **The above motion passed unanimously.**

Ms. Brookman said that the Committee also approved its 2005 meeting schedule and discussed the annual plans for Private Equity and Real Estate, which would be reported on later today.

[The Board recessed at 10:24 A.M., and reconvened in open public session at 10:32 A.M.]

## STAFF'S REPORT

### Executive Director's Report

Mr. Dear provided his monthly report for January. He summarized board governance, staff, investments, operations, communications and legislation activities. The 2004 Board education report was distributed.

Treasurer Murphy commented on the number of new legislators, specifically in the House of Representatives. He said that he was opposed to any legislative action for state issuance of pension obligation bonds, and asked that the executive director track any proposal toward that end.

### Monthly Investment Report

Mr. Bruebaker provided the monthly investment report for December 2004. He reported that assets under management are at $61.1 billion. For the month, U.S. equity returned 3.6 percent, matching the benchmark for the month and fiscal year-to-date. International equity returned 4.5 percent, outperforming the benchmark by 30 bps for the month and 173 basis points for the fiscal year-to-date. Fixed income was up 0.9 percent, underperforming the Lehman Universal by 8 bps and matching the Lehman Aggregate; the one-year performance has outperformed the Lehman Universal by 17 bps. Private equity returned 3.8 percent for the month. Draws were $203 million for the month. KKR draws were $52 million and $151 million of draws were from the rest of the portfolio. Total draws for 2004 were $1.89 billion. Distributions were at $358 million. KKR distributions were $156 million and $202 million of distributions were from the rest of the portfolio. Year-to-date distributions were at $2.577 billion, which surpassed the previous record of $1.2 billion in distributions set in 2000. Two private equity investments were approved during December: KKR European Fund II and BC European Capital VIII. Nothing closed in private equity. Real estate returned 4.4 percent for the month. Principal Enterprise Capital I closed during the month for real estate.

## ADMINISTRATIVE COMMITTEE REPORT

### 2005-2006 Recommended Conferences

Mr. Masten said that the Administrative Committee met on January 4. It reviewed the list of 2005-2006 recommended conferences.

> **Mr. Masten moved that the Board accept the Administrative Committee's recommendation to approve the recommended conference list for 2005-2006. Ms. Brookman seconded.**

Mr. Dear said that some additions were made to the 2005-2006 recommended conference list at the Administrative Committee's request.

> **The above motion passed unanimously.**

### Executive Director Evaluation

Mr. Dear reviewed the agency's scorecard, five key drivers for long-term success, and 2004 accomplishments. He described the strategic, operational and technology initiatives planned for 2005.

## ASSISTANT ATTORNEY GENERAL'S REPORT

There was nothing to report.

Chair Masten called the Board into executive session at 11:13 A.M. He said the purpose is to discuss the performance of a public employee, and to discuss confidential information regarding investments. Chair Masten estimated that the executive session would last at least one hour, and after completion of the executive session, the Board would resume its open public session.

## ADMINISTRATIVE COMMITTEE REPORT (CONTINUED)

**Executive Director Evaluation**

## PRIVATE EQUITY ANNUAL PLAN

[Mr. Trause was no longer in attendance at 12:28 P.M.]

## REAL ESTATE ANNUAL PLAN

[The executive session concluded at 1:31 P.M. and the Board recessed. The Board reconvened in open public session at 1:40 P.M.]

[Treasurer Murphy, Bob Nakahara, and Jeff Seely were no longer in attendance at 1:40 P.M.]

## EDUCATION SESSION – FIXED INCOME

Mr. Kennett and Ms. Tosteson Rosen provided an overview of the fixed income asset class. Mr. Kennett described what investments are considered fixed income, indices, risks, and returns. He explained the relationship between yield and maturity for like securities, and how the yield is used to calculate the bond's price. He reviewed fixed income strategies, portfolio analysis and ratings, and credit bonds. Ms. Tosteson Rosen described mortgage backed and securitized bonds. Mr. Kennett explained why various funds managed by the WSIB are invested in fixed income. He provided a brief summary of the role of the Federal Reserve in setting interest rates.

[Mr. Gorton, Ms. Brookman, and Mr. Charles were no longer in attendance at 2:11 P.M.]

## OTHER ITEMS

There was no further business to come before the Board. The meeting adjourned at 2:26 P.M.

George Masten

George Masten
Chair

ATTEST

Joseph A. Dear

Joseph A. Dear
Executive Director