WASHINGTON STATE INVESTMENT BOARD
Board Meeting Minutes
September 15, 2005

The Washington State Investment Board met in open public session at 9:30 a.m. in the boardroom at 2100 Evergreen Park Drive SW, Olympia, Washington.

Present:	George Masten, Chair Pat McElligott, Vice Chair Debbie Brookman Senator Lisa Brown (via teleconference) Glenn Gorton Jeff Hanna Charlie Kaminski John Magnuson Sandy Matheson Bob Nakahara Jeff Seely (via teleconference) Dave Scott Representative Helen Sommers
Absent:	Treasurer Mike Murphy Gary Weeks
Also Present:	Joe Dear, Executive Director Gary Bruebaker, Chief Investment Officer Diana Will, Senior Investment Officer – Asset Allocation Tom Ruggels, Senior Investment Officer – Private Equity Steve Draper, Senior Investment Officer – Real Estate Kristi Walters, Executive Assistant Paul Silver, Assistant Attorney General Mike Krems, Pacific Corporate Group Michael Humphrey, Courtland Partners Joe Cook, Courtland Partners Josh Lerner, Harvard Business School Antoinette Schoar, Massachusetts Institute of Technology

[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 – JULY 20-21, 2005

Vice Chair McElligott moved to adopt the July 20-21, 2005, Board minutes. Ms. Brookman seconded and the motion carried unanimously.

PUBLIC COMMENT

There was no public comment.

QUARTERLY PERFORMANCE REPORTS

Mr. Bruebaker provided the quarterly reports for the commingled trust fund (CTF), defined contribution plans, daily priced investment options, Labor and Industries' funds, and permanent and other trust funds for the period ended June 30, 2005.

Commingled Trust Fund

The CTF was at $47.4 billion, up $901 million for the quarter. Performance for the quarter was up 2.57 percent. The fund outperformed the TUCS public fund > $1 billion median for every time period. U.S. equity was at $15.6 billion, up $300 million and outperforming the benchmark by 2 basis points (bps) for the quarter. International equity was at $7.8 billion, up $100 million for the quarter, outperforming the benchmark by 23 bps. Fixed income was at $12.3 billion. It underperformed for the quarter, due to short duration. CTF credits and governments also underperformed. Fixed income is outperforming for the three-, five- and ten-year.

Defined Contribution Plans

For the quarter, the Teachers Retirement System Plan 3 was at $2.6 billion, up $105 million. The School Employees Retirement System Plan 3 was at $721 million, up $27 million. The Public Employees Retirement System Plan 3 was at $936 million, up $31 million.

The Deferred Compensation Program was at $1.9 billion, up $53 million for the quarter. The Judicial Retirement Account was at $14 million, up $552,000 for the quarter.

The Bond Market Fund was down 23 bps for the quarter. It was hurt by shorter duration and exposure to TIPS. The Cash Funds were down 5 bps for the quarter. The TAP Option is up 103 bps. The Long Horizon is up 3 bps, while the Mid and Short Horizon are down by 8 and 10 bps, respectively, due to the underperformance by the Bond Fund. The Short Horizon was also hurt slightly by the cash underperformance. The Socially Balanced Fund was hurt by its underweight exposure to the energy sector and to stocks with a high correlation to increases in oil prices. The fixed income portion of that portfolio was also hurt by the shorter duration. The Socially Balanced Fund is above the benchmark by 72 bps since inception.

The Equity Income Fund underperformed by 143 bps and the Independence Fund underperformed by 39 bps. The Growth Company Fund outperformed the benchmark by 305 bps, due to stock selections. The U.S. Stock Market Index was up by 2 bps, the U.S. Stock Fund was down 2 bps, the U.S. Large Stock Fund was up by 1 bp, and the U.S. Small Stock Fund was down by 1 bp. The Active International Fund was up by 29 bps, and the Passive International Fund was up by 14 bps for the quarter.

Daily Priced Investment Options
Mr. Bruebaker said that the components of the daily priced investment options were included in the Deferred Compensation Program report.

Labor and Industries' Funds
The Labor and Industries' Funds were at $10.3 billion, up $300 million for the quarter. All asset classes are within their target ranges. Short duration and cash holdings hurt all funds. The Accident and Pension Reserve Funds were also hurt by CMO performance during the quarter.

Permanent and Other Trust Funds
Mr. Bruebaker noted that the Permanent Funds did not have a good quarter; however, the funds are not managed on a total return basis, the focus is on income stability. Treasury and credits underperformed due to their shorter durations. CMOs did well. Other Trust Funds experienced similar results.

The Guaranteed Education Tuition (GET) portfolio was at $548.2 million, up $56.6 million for the quarter with all asset classes within their policy ranges. GET is even for the second quarter and one-year, down for the three-year by 10 bps, and up for the five-year by 50 bps.

The Developmental Disabilities Endowment Fund state portfolio was at $6.9 million, up $200,000 with all asset classes within their adopted ranges. The private funds portfolio was at $3.2 million, up $805,000 for the quarter. Performance for the state funds was up 120 bps for the quarter. The private funds were up 180 bps for the quarter.

Private Equity
Mr. Ruggels introduced Mike Krems of Pacific Corporate Group (PCG), the Board's private equity consultant, who presented the private equity funds quarterly report for the period ended March 31, 2005.

Mr. Krems said that there were three commitments authorized during the first quarter totaling $430.8 million: Palamon European Equity II, Bridgepoint Europe III, and Menlo Ventures X. It was another strong quarter for distributions, which totaled $617.8 million. Contributions for the quarter totaled $304.7 million so, in aggregate, the program generated $313.1 million in net positive cash flow for the quarter. The large distributions in the portfolio lead to a slight decline in the portfolio's value. There was no significant change in the IRR since inception during the quarter. Two investments totaling $300.6 million closed during the quarter: BC Partners VIII and Warburg Pincus International Partners Secondary.

Sub-sector allocations are within their targeted ranges and the portfolio is maturing as designed. The portfolio remains well diversified by industry, consistent with previous quarters. Since inception, the portfolio has outperformed the S&P 500 Index. In general, the KKR portfolio has outperformed the LP portfolio. For the one-, three- and five-year basis, the portfolio has outperformed the S&P 500 Index plus 500 basis points benchmark. Small/medium corporate finance, international, distressed and direct secondaries subsectors have been the top performers over the past five years. Large corporate finance and venture capital have performed best over longer periods.

Real Estate

Mr. Draper introduced Michael Humphrey and Joe Cook from Courtland Partners who reported on the performance of the real estate portfolio through March 31, 2005.

Mr. Humphrey reported that the current portfolio market value was at $4.5 billion with remaining commitments of over $4 billion. Total net returns for the one-, three-, five and ten-year periods were at approximately 22, 15, 13 and 16 percent respectively. He noted that the returns are unsustainable at this level. Real estate continues to experience significant capital flows and allocations resulting in continued appreciation. Returns adjusted for inflation for the one-, three-, five- and ten-year periods are at approximately 19, 12, 10 and 13 percent respectively. With cap rates going down and pricing going up, there are lower income returns.

Mr. Humphrey reviewed the portfolio investment net returns. The five largest investments comprise approximately 50 percent of the portfolio. The strategy discussions three years ago to increase international exposure and to do non-traditional investments are producing positive returns. Hometown America is outpacing projected returns with almost a 19 percent one-year return, with an income return of 9 percent. Principal Enterprise Capital continued to have had strong performance at 27 percent. Lone Star IV and III have $650 million invested and their one-year performance was at 39 and 70 percent respectively. Timber is recovering but continues to lag. Suburban office and industrial in non-major markets has not done well. The European direct investment account is showing recovery, but has lagged expected returns.

Mr. Humphrey reviewed the returns versus the benchmarks. The one-, three-, five- and ten-year returns have outperformed by approximately 800, 500, 400 and 600 bps respectively. He reviewed the property type diversification.

Mr. Hanna asked Mr. Humphrey to comment on how the WSIB did better on a one-year basis than the Courtland database; specifically, given the extraordinary return that CalPERS recently experienced. Mr. Humphrey said that CalPERS is selling a significant portion of their portfolio. Mr. Bruebaker noted that they are selling half of their portfolio. Mr. Humphrey said there was bidding up of values, especially in larger portfolios.

Mr. Humphrey reviewed the geographic diversification that shows the WSIB was overweight in foreign assets, which have done well for the fund. The portfolio is underweight in the East, although recent allocations have been made to industrial properties in the east.

Mr. Nakahara asked if Hurricane Katrina affected the portfolio. Mr. Draper reported that the WSIB did not have any property in the areas affected. The WSIB may see some future portfolio impact based on availability of labor and materials for development.

Mr. Humphrey commented on cap rates and the costs per square foot in the marketplace. He reminded the Board that declining cap rates are inversely related to the value of real estate. With more capital coming to real estate, prices are being bid up and expected income returns are declining. Office continues to experience vacancy levels comparable to the early 90s, which was considered a time when real estate was depressed.

Mr. Humphrey reviewed the capital flows into real estate, which showed 2004 as a record year. He said that 2005 is expected to end up near the same level.

In response to Mr. Hanna's question about whether the WSIB should take advantage of the mark-up of properties, Mr. Draper said that WSIB's approach is to hold properties long-term primarily for income. Mr. Draper said that we would see attractive returns if high quality assets were liquidated, but that approach would have dramatic impact on allocation. He said it would be difficult to replace the properties with like-quality properties. Mr. Bruebaker said that the internal Investment Committee had discussed this approach but determined there is currently no other place to put the money. Mr. Humphrey said that the WSIB had taken advantage of some attractive refinancing and had sold some properties at attractive pricing. The capital returned and distributions to the fund over the past year amounted to around $950 million to the fund or roughly 22 percent of the total real estate portfolio. Mr. Kaminski asked why the WSIB would not take advantage of a hot market and try to sell properties at a forward price and diversify the money by putting it to work in something that is more distressed. Mr. Draper said the goal of the portfolio is not to create the highest possible return but, rather, to create a long-term, high-quality, stable income stream. Mr. Bruebaker said that we would likely have to replace the property by also paying a forward price. Mr. Magnuson said that the strategy in place is in accordance with the real estate plan adopted in January, with the objective being to maintain a stable income. Real estate is not currently at its allocation specifications. If we sold off property, we would be stressed to place the money where the yield is not as great.

ASSET ALLOCATION DECISION

Mr. Bruebaker introduced the asset allocation decision. He reminded the Board that the models reviewed at the July Board meeting will allow for as much real estate and private equity as desired; therefore, limits must be established. The current allocation for private equity is at 14.9 percent with a target allocation of 17 percent, plus or minus 4 percent. Real estate is at 9.17 percent with a target of 12 percent, plus or minus 2. The WSIB is currently below its real estate target. Staff is recommending the same target allocation for private equity and for real estate as it will take four years to reach the current target. Additionally, the Board has flexibility to go up to 21 percent in private equity without policy change and 14 percent in real estate with the current allocation range and up to 15 percent with what staff recommends, which includes changing the range amount around real estate to plus or minus 3 percent. He reminded the Board that, by policy, asset allocation is reviewed at least every four years, but that the Board can revisit asset allocation anytime.

Mr. Bruebaker said that staff is recommending a 23 percent allocation in U.S. equity and 23 percent allocation to international equity to reflect the investable universe within which we operate. He said that the current allocation is 31 percent U.S. equities and 15 percent international equities. Staff plans to return in November or December with a full implementation plan.

Vice Chair McElligott moved that the Board adopt the following new asset allocation targets and ranges for the CTF:

Asset Class	Long Term Target	Range
U.S. Equity	23%	±4% 19% - 27%
International Equity	23%	±5% 18% - 28%
Fixed Income	25%	±4% 21% - 29%
Private Equity	17%	±4% 13% - 21%
Real Estate	12%	±3% 9% - 15%
Cash	0%	±2% 0% - 2%

Ms. Matheson seconded and the motion carried unanimously.

Mr. Bruebaker noted that the Board had discussed the asset allocation extensively at the two-day July meeting and has participated in a year-long education series on asset allocation. Mr. Dear recognized the work of Diana Will who had lead responsibility for the asset allocation project over the last year. Chair Masten commented on the asset allocation modeling work done at the July meeting.

[Representative Sommers was no longer in attendance at 10:26 a.m.]

ADMINISTRATIVE COMMITTEE REPORT

Innovation Portfolio Policy 2.10.800 Adoption

Mr. Masten said that the Administrative Committee reviewed the draft Innovation Portfolio policy at its September 12 meeting. The concept was also discussed extensively at the July Board meeting.

Chair Masten moved that the Board accept the Administrative Committee's recommendation to adopt the Innovation Portfolio Policy 2.10.800. Ms. Brookman seconded the motion.

Mr. Bruebaker said that the policy would allow staff to consider investment options that do not fit neatly within current asset classes. Staff would find innovative investments, which would be subject to three checks and balances. The entire asset class for Innovation Portfolio investments cannot exceed 5 percent of the CTF. Secondly, each individual investment cannot exceed 1.0 percent of the CTF. The executive director would report monthly on investments under consideration and those activities approved by the internal Investment Committee, which is comprised of the executive director, chief investment officer and all senior investment officers. The investment would be subject to unanimous support by the executive director, chief investment officer and the senior investment officer who sponsors the proposed investment.

Mr. Masten said that the percentage noted in the draft policy for each individual investment should read 1 percent, instead of one-tenth of a percent.

Mr. Scott moved to amend the percentage noted on page 2 of the Innovation Portfolio Policy 2.10.800, in the last line under the Risk Management and Portfolio Constraint section, from 0.1 to 1.0 percent. Ms. Brookman seconded and the motion carried unanimously.

The motion to adopt the Innovation Portfolio Policy 2.10.800 as amended carried unanimously.

Service Provider (Vendor) Selection Policy 2.00.230 Revision
Mr. Masten said that the Administrative Committee reviewed the Service Provider (Vendor) Selection Policy, which is a revision of an existing policy.

Chair Masten moved that the Board accept the Administrative Committee's recommendation to adopt the Service Provider (Vendor) Selection Policy 2.00.230 Revision. Vice Chair McElligott seconded the motion.

Mr. Dear said that the policy revision incorporates two changes. One was a suggestion raised at the July Board meeting to eliminate the step requiring that a Committee and the Board approve concept documents prior to the issuance of a Request for Proposal (RFP). This was not a value-added step and it consumes time. Mr. Dear noted that state procurement laws still apply and the Board will be informed of pending RFPs. The second change is a result of the review performed by Cortex Applied Research of the Board's implementation of policies, which identified a technical problem with the quiet period requirements. The policy revision adds language that clarifies the restrictions that apply to Board members and staff. The Administrative Committee is recommending an amended policy version, which incorporates practical suggestions from Treasurer Murphy.

The above motion carried unanimously.

Executive Director Reappointment

Chair Masten moved that the Board accept the Administrative Committee's recommendation to re-appoint Mr. Dear to a new three-year appointment from November 12, 2005, until November 11, 2008, and forward its action to the State Finance Committee. Vice Chair McElligott seconded the motion.

Mr. Dear noted that the dates of the term relate to his original appointment date.

The above motion carried unanimously.

Chair Masten said that the Administrative Committee would meet in November to discuss executive director compensation.

Mr. Hanna asked if the performance reports could be available sooner. Mr. Dear said that staff is working with the custodian bank and Financial Control Systems to see what can be done. The delay in reporting this month was because the Board did not meet in August.

[The Board was in recess at 10:40 a.m. and reconvened in open public session at 11:00 a.m.]

Mr. Dear noted that raw performance numbers are available on the agency's website within 10 business days of the close of the period. Lags with real estate and private equity numbers would still apply. Mr. Dear said that staff would send notification to Board members once the new numbers are posted.

PUBLIC MARKETS COMMITTEE REPORT

U.S. Equity Enhanced Index Management Finalist Selection

Mr. Gorton reported that the Public Markets Committee met on September 12 and September 13 to interview managers for the U.S. equity enhanced index mandate and the Deferred Compensation Program (DCP)/Judicial Retirement Account (JRA) U.S. equity core and value mandates, and to discuss the dedicated international emerging markets portfolio. He described the process used for each of the searches. An RFP was issued and interested firms provided their information to Callan Associates. Callan then screened the responses against minimum qualifications and WSIB staff and the Callan Manager Search Committee further evaluated qualifying firms. WSIB staff then performed additional analysis and interviewed the top firms with DRS staff also participating on the DCP/JRA related searches. The Public Markets Committee interviewed the top three firms for each mandate.

For the U.S. equity enhanced index mandate, the Committee interviewed Barclays Global Investors (BGI), State Street Global Advisors (SSgA), and Western Asset Management. Western provides a futures overlay strategy while Barclays and State Street both offer quantitative stock based strategies. All three firms were chosen for diversification purposes.

> **Mr. Gorton moved that the Board accept the Public Markets Committee's recommendation to select State Street Global Advisors, Western Asset Management, and Barclays Global Investors as the apparently successful offerors for the U.S. equity enhanced index mandate, subject to continued due diligence and successful negotiation of terms and conditions. Mr. Scott seconded the motion.**

Mr. Bruebaker described the diversification benefits by having three firms, and said this is an excellent opportunity to develop a relationship with Western and leverage that firm's resources. In response to Chair Masten's question, Mr. Bruebaker said that the individual mandates for each firm have yet to be worked out.

> **The above motion carried unanimously.**

Deferred Compensation Program and Judicial Retirement Account U.S. Equity Core Option Finalist Selection

The Committee interviewed BGI, Vanguard, and Fidelity for the DCP/JRA U.S. equity core option and selected BGI. The Committee had good discussions of the pros and cons of each product and believes that BGI offers the best risk/return profile for our members for this mandate.

> **Mr. Gorton moved that the Board accept the Public Markets Committee's recommendation to select Barclays Global Investors as the apparently successful offeror for the Deferred Compensation Program and Judicial Retirement Account U.S. equity core option, subject to continued due diligence and successful negotiation of terms and conditions. Mr. Scott seconded and the motion carried unanimously.**

Deferred Compensation Program and Judicial Retirement Account U.S. Equity Value Option Finalist Selection
On Tuesday, the Committee interviewed Lord Abbett, LSV Asset Management, and T. Rowe Price for the DCP/JRA U.S. equity value option, and selected LSV for this mandate. The Committee had good discussions of the pros and cons of each product. It believes that LSV offers the best risk/return profile for our members for this mandate.

> **Mr. Gorton moved that the Board accept the Public Markets Committee's recommendation to select LSV Asset Management as the apparently successful offeror for the Deferred Compensation Program and Judicial Retirement Account U.S. equity value option, subject to continued due diligence and successful negotiation of terms and conditions. Mr. Scott seconded and the motion carried unanimously.**

Emerging Markets Manager Discussion
One of the WSIB's dedicated international emerging markets managers, F&C, has been on Watchlist for 30 months and lost one of their primary portfolio managers earlier this year. Staff recommended redeeming F&C's assets and the Committee agreed. Staff is currently reviewing a number of options to gain temporary international emerging markets exposure while a search is undertaken for a new dedicated emerging markets manager.

> **Mr. Gorton moved that the Board accept the Public Markets Committee's recommendation to redeem the assets currently invested in the F&C Emerging Markets Commingled Trust. Mr. Scott seconded and the motion carried unanimously.**

In response to Ms. Brookman's question, Mr. Bruebaker said that staff had approached GMO about moving the money into their fund, but their product is closed.

PRIVATE MARKETS COMMITTEE REPORT – INVESTMENT CONSIDERATIONS

Real Estate

Corporate Properties of the Americas, LLC – Follow-on Investment
Ms. Brookman reported that the Private Markets Committee met on September 1 and discussed four investment recommendations.

Ms. Brookman said that the Private Markets Committee recommends an additional investment of up to $500 million in Corporate Properties of the Americas, LLC (CPA). The Committee's recommendation is based, in part, on the following: investing in real estate through real estate operating companies (REOCs) such as CPA is the WSIB's preferred strategy for real estate and CPA provides the opportunity for excellent risk-adjusted returns. The WSIB's investment, from inception, has earned an IRR of 36.0 percent. Significant opportunities in the areas of portfolio and single-property acquisitions, build-to-suit development, corporate sale/lease back transactions, land investments, and corporate mergers/acquisitions are available to the company at this time. The CPA management team is deep. This team currently is winning a significant portion of the available transactions in Mexican industrial property and has significant momentum in the market at this time. Staff has built a positive relationship with Ray Flores and the rest of the management team; this lowers risk when compared to an investment with a team with which the WSIB has no experience. The governance provisions of CPA are consistent with the preferred structure for the WSIB's real estate portfolio. The managing member can be removed by WSIB at any time with or without cause. Staff will also have the ability to veto major capital decisions and approve the annual business plan and budget. The partnership's financial terms and conditions are very attractive compared to many alternatives in the marketplace. The preferred return for CPA is higher than market, and the carried interest calculation does not include a catch up mechanism. There is no management fee for CPA, only the actual costs of the entity.

> **Ms. Brookman moved that the Board accept the Private Markets Committee's recommendation to approve an additional investment of up to $500 million, plus fees and expenses, in Corporate Properties of the Americas, LLC, subject to continued due diligence and final negotiation of terms and conditions. Vice Chair McElligott seconded the motion.**

Mr. Magnuson said he was unable to attend the Private Markets Committee meeting but he supports the motion. The deal conforms to the annual plan for private equity and may offer follow-on investment potential. The partner is a solid performer and the position of this large amount of money is important strategically.

> **The above motion carried unanimously.**

Evergreen Real Estate Partners, LLC

Ms. Brookman said that the Private Markets Committee recommends an additional investment of up to $500 million in Evergreen Real Estate Partners, LLC, and the expansion of the partnership's investment mandate to include Europe. The Committee's recommendation is based, in part, on the following: investing in real estate through REOCs, as stated previously, is an attractive strategy. The Private Markets Committee also views expanding Evergreen's geographic reach as a significant and important step in the progression of the WSIB's real estate investment program. Macquarie Capital Partners (MCP) has established itself as a leader in providing capital to REOCs. Mr. House specifically has been involved with marrying billions of dollars of capital to REOCs over the past 12 years and is well known and respected in the industry. Evergreen additionally benefits from access to the skills, experience, and contacts of approximately 26 other MCP professionals as well as the resources of Macquarie Bank's U.S. real estate group. Evergreen has shown in completing its first transaction and nearing completion on its second that they have excellent underwriting and negotiating skills.

The WSIB's successful strategy of investing in real estate through operating companies also has considerable merit in Europe. Having a strong local presence is even more important in the highly fragmented and less-transparent European real estate markets than it is in the U.S.; this is one of the strengths of investing in or with REOCs. The governance provisions of Evergreen are consistent with the preferred structure for the WSIB's real estate portfolio. The managing member can be removed by WSIB at any time with or without cause. Staff will also have the ability to veto major capital decisions and approve an annual budget. In addition, Evergreen will have exclusive access to this strategy from MCP as long as the partnership has capital available to invest.

The partnership's financial terms and conditions are very attractive compared to many alternatives in the marketplace. The carried interest terms for Evergreen are better than market and do not include a catch up mechanism. The asset management fee of 0.25 percent is below market and, combined with direct costs of the partnership, the total cost (other than carried interest) of investing in Evergreen will initially be approximately 55 to 65 basis points on committed capital.

The manager of Evergreen is a Registered Investment Advisor, providing comfort from a regulatory and oversight standpoint. Additionally, MCP is registered with the U.S. Securities and Exchange Commission as a broker/dealer and is thus subject to oversight and professional scrutiny. The company is similarly registered with authorities in the U.K. regarding their European operations. MCP's affiliation with Macquarie Bank may provide valuable contacts and opportunities for the WSIB outside of the geographic mandate of Evergreen. Investment performance of deals led by the MCP team has historically been very good, generally outperforming original expectations. Prior to the establishment of Evergreen, staff had a long-standing relationship and familiarity with Mr. House and the MCP team through the WSIB's prior investment in Security Capital Group (SCG). Several of the companies capitalized through the efforts of this group have become dominant players in the real estate industry.

Evergreen will provide diversification for the WSIB real estate portfolio. Each REOC investment owns many properties and is also diversified by geography and property type. The addition of Europe to the mix will enhance this diversification benefit even further. In addition, MCP has considerable experience working with REOCs in non-traditional property types such as senior housing and parking, which are largely absent from the WSIB real estate portfolio. The first transaction undertaken by Evergreen was in self-storage, another non-traditional sector.

Ms. Brookman moved that the Board accept the Private Markets Committee's recommendation to approve an additional investment of up to $500 million, plus fees and expenses, in Evergreen Real Estate Partners, LLC, and the expansion of the partnership's investment mandate to include

Europe, subject to continued due diligence and final negotiation of terms and conditions. Vice Chair McElligott seconded the motion.

Mr. Magnuson said that he discussed the investment with Mr. Draper and feels that this is a good opportunity with a proven partner. This provides an opportunity to expand strategy into Europe with experienced partners. There are a relatively limited number of these types of opportunities.

The above motion carried unanimously.

<u>**Private Equity**</u>

Vestar Capital Partners V, L.P.

Ms. Brookman said that the Private Markets Committee recommends an investment of up to $100 million in Vestar Capital Partners V, L.P. The Committee's recommendation is based, in part, on the following: The proven, experienced, and cohesive senior management team has worked together for over 20 years. Vestar's five founding partners, led by Dan O'Connell, chief executive officer, have worked together since 1980 as the principals of First Boston's MBO group, prior to forming Vestar in 1988. The firm has remained disciplined in its adherence to the same consistent investment strategy that has been successful since 1988. The firm has generated a strong long-term track record since 1988. Over 17 years and four funds, Vestar has invested in 50 transactions, 31 (or 62 percent) of which are fully realized. A total of $2.6 billion of invested capital has generated $4.2 billion of total value and $2.8 billion of realized proceeds, producing an aggregate net IRR of 37.5 percent. The fund's middle-market focus, both in the U. S. and Europe, complements the WSIB's significant exposure to larger buyout transactions. The Vestar principals, as a group, will invest $150 million in Vestar V. This significant commitment strongly aligns general partner and limited partner interests. This is an opportunity to expand a successful, long-term relationship with a high-quality general partner.

Ms. Brookman moved that the Board accept the Private Markets Committee's recommendation to approve an investment of up to $100 million, plus fees and expenses, in Vestar Capital Partners V, L.P., subject to continued due diligence and final negotiation of terms and conditions. Vice Chair McElligott seconded and the motion carried unanimously.

OCM Opportunities Fund VI, L.P.

Ms. Brookman said that the Private Markets Committee recommends an investment of up to $100 million in OCM Opportunities Fund VI, L.P. The Committee's recommendation is based, in part, on the following: Oaktree has one of the largest, most experienced, and respected distressed debt teams in the industry. The team has developed an extensive network of contacts with which they receive preferential access to opportunities. This fund continues Oaktree's successful investment strategy. Oaktree has proven its ability to add value through strong fundamental analysis, skillful price negotiation, and active participation in the restructuring process. The firm has a strong, long-term track record with substantial realizations. Since 1995, the team has invested $8.9 billion of committed capital generating realizations of $20.5 billion and an aggregate net IRR of 12.4 percent. This investment is an excellent fit in the WSIB Private Equity Portfolio. Distressed debt provides relatively low-risk diversification within the private equity portfolio. Currently, the allocation to distressed debt is at the lower end of the established range. This is an opportunity to expand a relationship with a long-term, high-quality partner.

Ms. Brookman moved that the Board accept the Private Markets Committee's recommendation to approve an investment of up to $100 million, plus fees and expenses, in OCM Opportunities Fund VI, L.P., to be allocated as follows: up to $30 million in OCM VI and the remaining balance in OCM VIb if raised within 18 months of the final close of OCM VI, subject to continued due diligence and final negotiation of terms and conditions. Vice Chair McElligott seconded and the motion carried unanimously.

Mr. Nakahara asked how large the OCM V investment was and how much of that is invested. Mr. Ruggels said he believed it was approximately $1.2 billion and the majority of it is committed. Mr. Nakahara stated a concern that OCM's distressed debt person may not return. Mr. Ruggels said that OCM's team is very deep and have worked on distressed debt together for several years. Staff feels confident about the ability of the team to successfully manage the fund. In response to Chair Masten's question about the recommended investment amount, Mr. Ruggels said that staff had tried for a larger allocation to OCM VI but $30 million was all we could get at this time. If the firm does raise a Fund VIb, staff will pursue a larger allocation but it is unlikely that the full additional $70 million would be available to us.

The above motion carried unanimously.

[Mr. Seely was out of attendance at 11:35 a.m.]
[The Board recessed at 11:35 a.m. and reconvened in open public session at 12:10 p.m.]

<u>**CHAIR/VICE CHAIR ELECTION**</u>

Chair Masten opened nomination for the election of Board Chair.

Mr. Scott nominated Mr. McElligott as Chair. There being no further nominations, Chair Masten declared Mr. McElligott elected by acclamation.

Chair Masten then opened nominations for Board Vice Chair.

Mr. Gorton nominated Ms. Brookman as Vice Chair. There being no further nominations, Chair Masten declared Ms. Brookman elected by acclamation.

STAFF'S REPORT

Executive Director's Report

Mr. Dear provided his monthly report for September on Board, investments, operations, communications and legislation activities. The new internal auditor and real estate staff were introduced. The September Strategic Economic Decisions publication was distributed, as were recent responses to inquiries received about Sudan divestment.

[Mr. Seely was in attendance at 12:10 p.m.]

Senator Brown asked to be kept informed on the liability protection issue, even if there is no need for agency request legislation.

Monthly Investment Report

Mr. Bruebaker provided the CTF monthly investment report for June. For the month, U.S. equity lost 87 bps, outperforming the benchmark by 3 bps. The annual performance continues to be good, outperforming the benchmark by 6 bps for the year ended August 31, 2005. International equity returned 2.7 percent, outperforming its benchmark by 23 bps for the month and 63 bps for the year. Fixed income returned 1.4 percent, outperforming the Lehman Universal by 17 bps. The CTF governments outperformed the index governments by 40 bps, and credits outperformed index credits. TIPS also performed well for the month. Private equity returned 3.5 percent for the month. Draws were $223 million: $119 million by KKR and $104 million by the LP portion of the portfolio. Distributions were at $218 million. KKR distributions were $57 million, with $161 million of distributions from the rest of the portfolio. Only one investment closed in August: Asia Opportunities Fund for $100 million. Real estate returned 0.4 percent for the month. Draws for August were $25 million and distributions were $58 million.

ASSISTANT ATTORNEY GENERAL'S REPORT

Mr. Silver said he had nothing to report.

[Mr. Nakahara was no longer in attendance at 12:31 p.m.]
[The Board recessed at 12:31 p.m. and reconvened in open public session at 12:45 p.m.]

DRIVERS OF PRIVATE EQUITY SUCCESS

Mr. Dear introduced Professor Josh Lerner, Harvard Business School, and Professor Antoinette Schoar, Massachusetts Institute of Technology. Professor Lerner introduced their framework for determining drivers of private equity success. He said that private equity has a challenging set of issues with long lags until performance is realized, varying conventions of reporting and the limited data available. The data used in their study was from funds formed between 1991 and 2001. Systematic patterns of returns were examined. Professor Lerner touched on key findings with fund performance, persistence, subsequent funds of the same private equity group, fee structure, partnerships raising follow-on funds, and timing.

Professor Schoar described how and where they collected data for the study, how they measured the performance, and what controls were put into place for the analysis.

[Mr. Scott was no longer in attendance at 1:37 p.m.]

Professor Schoar reviewed the impact that key variables had on performance, such as fund size, change in fund size, fund sequence number, partner to capital ratio, partner to total staff ratio, and carried interest. She noted that more established partners have better performance. If there are good returns experienced with a first or second fund, stay with the firm. More partner-intensive funds have higher performance. She reported their findings on the relationship between carried interest and performance. Professor Schoar reported persistence of performance results and how timing and valuations factor in.

Professor Lerner said that key points are to: consider persistence across funds of private equity groups' seek established partners and those that limit rapid growth; be aware of the challenges of first fund investments as there are benefits to being with established groups; and consider the leadership relationship and impact fees have on performance.

Mr. Kaminski and Mr. Seely both said they would like to see further analysis of WSIB results against this framework.

OTHER ITEMS

There was no further business to come before the Board. The meeting adjourned at 2:45 p.m.

George Masten

George Masten
Chair

ATTEST

Joseph A. Dear

Joseph A. Dear
Executive Director