WASHINGTON STATE INVESTMENT BOARD
Board Meeting Minutes
May 17, 2007

The Washington State Investment Board met in open public session at 9:34 a.m. in the boardroom at 2100 Evergreen Park Drive SW, Olympia, Washington.

Present:	Pat McElligott, Chair (via teleconference) Senator Lisa Brown (via teleconference) Charlie Kaminski George Masten (Acting Chair) Treasurer Mike Murphy Assistant Treasurer Allan Martin Bob Nakahara David Nierenberg Mason Petit Judy Schurke (via teleconference) Dave Scott
Absent:	Glenn Gorton, Vice Chair John Magnuson Sandy Matheson Jeff Seely Representative Helen Sommers
Also Present:	Joe Dear, Executive Director Gary Bruebaker, Chief Investment Officer Steve Draper, Senior Investment Officer – Real Estate Tom Ruggels, Senior Investment Officer – Private Equity Diana Will, Senior Investment Officer – Asset Allocation Kristi Haines, Executive Assistant Paul Silver, Assistant Attorney General Urs Rieder, Capital Dynamics

[Names of other individuals attending the meeting are listed in the permanent record.]

Mr. Masten called the meeting to order and took roll call.

[Senator Brown was no longer in attendance via teleconference at 9:36 a.m.]

OATH OF OFFICE - ALLAN MARTIN
Mr. Masten administered the oath of office to Allan Martin, Assistant State Treasurer, who will serve as an ex-officio Board member as designated by the State Treasurer per RCW 43.33A.020(4).

Treasurer Murphy said that he appointed Mr. Martin as the Assistant State Treasurer following Mr. Colleran's retirement. Mr. Martin has held a number of positions at the Office of the State Treasurer and is a trusted advisor of the Treasurer.

[Mr. Martin was no longer in attendance at 9:39 a.m.]

PUBLIC COMMENT
There was no public comment.

[Mr. McElligott was in attendance via teleconference at 9:40 a.m.]

ADOPTION OF THE MARCH 15, 2007, MINUTES

> **Treasurer Murphy moved to adopt the March 15, 2007, meeting minutes. Mr. Scott seconded the motion.**

Mr. Kaminski asked to have detail added on page 2, within paragraph 2, under the Executive Director's Report, reflecting that Mr. Magnuson, Mr. Seely, and Mr. Kaminski also commented on the Elevation Partners' departure announcement. He felt it noteworthy that four of the nonvoting members expressed concern on the matter. Mr. Masten asked for correction of the minutes.

> **The above motion to approve the minutes, as corrected, carried unanimously.**

EXECUTIVE DIRECTOR'S REPORT
Mr. Dear provided his monthly report for May on Board governance, staff, investments, operations, budget, public affairs, and open procurement activities. He announced that the WSIB received a "Best Limited Partner Editor's Award" from *Private Equity International* magazine.

Mr. Dear reported that the Board retreat is scheduled for July 17-19, 2007, at Port Ludlow. Treasurer Murphy asked if action items were planned at the retreat. Mr. Dear said that discussion of and a Board decision on asset allocation is planned.

> **Treasurer Murphy moved that the Board retreat include a discussion on asset allocation and postpone action on the discussion for a subsequent Board meeting. Mr. Scott seconded the motion.**

Treasurer Murphy said asset allocation is one of the most important decision made by the Board, and he has concerns with requesting a decision immediately following discussion. He anticipates a request to increase the private equity allocation and said he does not think that is a good decision. He would like additional time to consider the asset allocation proposal so a decision is reached that is acceptable to the majority of the Board. Mr. Masten said he prefers to have decisions made at regular meetings. He said that he would like to increase the private equity allocation.

Mr. Nierenberg said he would like an increase in private equity, but asked to have that discussion coupled with a structured report on the trend of private equity firms getting into the public equity arena.

Mr. Nierenberg asked to have the *Private Equity International* article relating to the WSIB's award emailed to members. Mr. Kaminski congratulated staff on the award.

The above motion passed unanimously.

Mr. Dear said that staff had received several proposals from some highly regarded private equity general partners relating to their plans for public shares and private placements. Staff requested Board approval of a Request for Qualifications and Quotations (RFQQ) to establish a pool of investment banking consultants to provide advisory services to the WSIB for private-placements. He noted three types of approaches: 1) public listing of investment interests in limited partnerships; 2) public listing of the general partner; and, 3) sale of equity interest in unregistered securities. Mr. Dear said that timelines on these deals are quick and, due to conflicts within the industry, staff is requesting a consultant pool. Staff's proposed motion was presented for the Board's consideration.

Mr. Nierenberg suggested revising the motion by dropping the words "investment banking" so that the Board is not limiting other opinions on the subject.

Treasurer Murphy asked for clarification on the motion language "the Board waives the practice of prohibiting a firm providing investment management services to the WSIB from responding to the RFQQ and from inclusion in the consultant pool for these services." Mr. Dear said that past practice has been to insert language into contracts so that firms can either serve as a consultant or investment manager to the Board, but cannot do both. He said that, with this current situation, a number of firms that provide this type of consulting are already managers to the Board; therefore, for this transaction only, staff is asking the Board to forego including that language in the RFQQ. Treasurer Murphy said he felt this was more Board policy than practice and he believes valuations would be viewed as conflicted if any relationship exists between the investment banker and private equity firm. Mr. Dear agreed with the Treasurer's point, but said he felt that a good manager could also serve as a good consultant. Staff is well aware of the conflict issue, but needs the advice of a firm within the business that has experience in this area. Any quality firm with this knowledge and expertise will have business relationships. Staff proposes that any firm responding to the RFQQ list all of its potential conflicts. Mr. Nierenberg suggested that a retired general partner may have the expertise to serve as such a consultant. Mr. Dear said it is a great suggestion, and he welcomed other member's suggestions. He noted that staff planned to seek out boutique firms as well. The desire is to populate a consultant pool. When considering a specific engagement, conflicts would be evaluated and staff would not select any firm that is greatly conflicted for a particular assignment. Mr. Bruebaker pointed out that he believes this would be the one instance where the Board would be better served by seeking the advice of a firm that also invested money on its behalf. This is a relationship-based business and it would be difficult, if not impossible, to find qualified firms that do not have some type of conflict with private equity firms; the world is full of conflicts. Staff seeks to eliminate where it can but, in situations where it cannot be eliminated, they can generally be managed. Mr. Nakahara said that finding individuals with deep domain knowledge of the business is a great idea and he hoped the RFQQ would not preclude public accounting firms. Mr. Kaminski suggested that a brainstorming session could draw out further solutions.

Mr. Masten asked if other public funds were considering these investments. Mr. Dear said that staff had held discussions with other funds that seek to share one outside expert, but would generally hire separate attorneys to evaluate investment proposals. The WSIB could cooperate with another public pension fund if the WSIB's proposed RFQQ does not produce the results. Staff's preference is to establish its own pool of consultants and take more of a lead role in evaluating these investment opportunities. Mr. Dear said that staff does not want to preclude any firm that either does business or hopes to do business with the WSIB from bidding on this particular procurement.

Staff was directed to keep the Board informed on its progress with the RFQQ. The matter will come back to the Board for further consideration if the RFQQ fails. Mr. Dear said that the matter is precedent setting, and staff would report to the Board if a worthwhile transaction is received.

> **Treasurer Murphy moved that the Board authorize the issuance of a Request for Qualifications and Quotations for the establishment of a pool of consultants to provide advisory services to the WSIB for private-placement and other investments on an as-needed project basis and delegate to the Executive Director the authority to select qualified responding firms to populate the pool.**
>
> **The Executive Director, with approval of the Private Markets Committee Chair, will select the most appropriate firm(s) to assist with each transaction and inform the Board of the firm selected. Mr. Petit seconded the motion.**

Treasurer Murphy said that he deliberately left out the first sentence of the second paragraph, of staff's proposed motion. Mr. Dear asked that the Board grant staff discretion to consider firms that would otherwise be ineligible to bid on this procurement.

> **Mr. Masten moved to amend the motion that the Board authorize the issuance of a Request for Qualifications and Quotations for the establishment of a pool of consultants to provide advisory services to the WSIB for private-placement and other investments on an as-needed project basis and delegate to the Executive Director the authority to select qualified responding firms to populate the pool.**
>
> **Further, as it pertains to selection for this pool alone, the Board waives the practice of prohibiting a firm providing investment management services to the WSIB from responding to the RFQQ and from inclusion in the consultant pool for these services. The Executive Director, with approval of the Private Markets Committee Chair, will select the most appropriate firm(s) to assist with each transaction and inform the Board of the firm selected. Chair McElligott seconded the motion.**

Mr. Masten said he has concerns with the potential for conflicts but would rather give staff as much leeway as possible. The issue could be more closely examined if the Board actually makes an investment. He considers the contract language prohibiting firms from serving as both an investment manager and consultant to the Board as practice, rather than policy, if it is not in writing.

Treasurer Murphy said the point of his original motion was to limit the RFQQ focus. Mr. Masten said that the amended motion would be limited as an exception for this RFQQ only and would not change practice.

The amended motion failed five to one, with Treasurer Murphy voting no.

The original motion carried.

Mr. Nierenberg asked that staff advise the Board as soon as possible if the RFQQ fails to find qualified individuals or firms. Mr. McElligott directed staff to bring the matter back to the Board for further consideration if only a small pool can be established. Mr. Masten expressed that opportunities could be missed if the Board fails to respond in a timely manner. Mr. Bruebaker reported that the primary opportunity staff is working on today could be missed if this RFQQ fails to provide for a qualified firm to assist staff on this due diligence.

[The Board recessed at 10:34 a.m. and reconvened in open session at 10:46 a.m.]

Treasurer Murphy distributed a letter he sent to and the response he received from Congressman Barney Frank, Chairman of the House Committee on Financial Services, regarding comments made by a Securities and Exchange Commissioner at a recent National Association of State Treasurers meeting. Treasurer Murphy expressed concern with the Commissioner's comments and suggested that the SEC take a stronger position on the majority vote issue. Treasurer Murphy read Congressman Frank's response for the record (attached). He said the action is a positive development.

AUDIT COMMITTEE REPORT
The Audit Committee met on May 15, 2007.

Internal Auditor Report 2007-02, Investment Performance Reporting

Mr. Scott moved that the Board accept the Audit Committee's recommendation to approve the 2007-02 Investment Performance Reporting Audit Report.

Mr. Scott reported that Internal Audit presented the Investment Performance Reporting Audit Report 2007-02. The performance reports are supported and materially accurate. The report highlights three recommendations to strengthen the controls around the reporting process.

The above motion carried unanimously.

The Audit Committee participated in an audit entrance conference for Fiscal Year 2007 presented by Heidi Algiere of the State Auditor's Office. The Committee was also notified that the SAO is conducting a performance audit of the WSIB's public records request policies and procedures. The report will be completed in July 2007 and will be presented at the next Audit Committee meeting.

Internal audit provided a Fiscal Year 2007-2008 audit plan proposal, which includes audits of Daily Funds Transaction Processing, Daily Cash Trades – Tickets, Confirmations, Trade Processing, Financial Control Systems, Deferred Compensation Managers, and Petty Cash during Fiscal Year 2007-2008.

The Committee reviewed the status of outstanding audit recommendations. Since the last quarterly status report in January 2007, three recommendations relating to the Cash Overlay Management Audit were added to the tracking list and resolution work began. Recommendations from the Investment Performance Reporting audit will be added.

Internal Audit Position Recruitment and Audit Charter Revisions

> **Mr. Scott moved that the Board approve the proposed revisions to the Audit Committee Charter 1.00.130 and Internal Audit Charter 1.00.190 as presented at the Board meeting. Mr. Petit seconded the motion.**

Mr. Scott said that the proposed revisions to the Audit Committee Charter 1.00.130 and the Internal Audit Charter 1.00.190 add clarity and reflect that the internal audit function will now have an additional internal auditor once the manager position authorized in the new budget is hired. The Committee raised a question about the appointing authority for the new position. As a result, the Committee requested that staff add language to Internal Audit Charter 1.00.190 to clarify that the Executive Director approves the final candidate. The Committee elected to forward the changes to the Board without recommendation pending the requested clarification. Staff removed the word "selects" from page 2, within paragraph 7, on an updated Internal Audit Charter that was distributed at the Board meeting. Mr. Dear clarified that the new internal audit position would be hired according to existing human resource policy and the selection process for the lead internal auditor position is unaffected.

> **The above motion carried unanimously.**

The Audit Committee approved a scope of work for the Fiscal Year 2007 financial statement audit and appointed Peterson Sullivan to conduct the independent audit this fall.

The Committee heard a report from staff on internal controls recommendations over financial reporting from its outside auditing firm Peterson Sullivan. Staff presented progress on 1) complying with new auditing guidelines on valuations of alternative investments; and, 2) improving controls over spreadsheets. Staff also reported that it had conducted a thorough review of the requirements to comply with Sarbanes Oxley Section 404 and concluded the WSIB has excellent internal controls over financial reporting and would not gain significant benefit from further documentation of controls at this time. The Committee concurred with staff's recommendation.

Mr. Silver reported that Board and staff were in complete compliance with the gift, travel, and financial statement reporting requirements of the Ethics in Public Service Act for calendar year 2006.

The Committee received a policy compliance review from Beth Vandehey. Since the last report in June 2006, there was significant improvement in compliance with Board policies and charters. Quiet period compliance and operating budget reporting are two policy areas that need to be strengthened for 2007.

The Committee also provided input on the annual evaluation of the internal auditor.

PRIVATE MARKETS COMMITTEE REPORT
The Private Markets Committee met on May 3, 2007.

Private Equity

Fortress Investment Fund V, L.P.

> **Mr. Masten moved that the Board accept the Private Markets Committee's recommendation to approve an investment of up to $300 million, plus fees and expenses, allocated between Fortress Investment Fund V, L.P., and Fortress Investment Fund V Coinvestment Fund, subject to continued due diligence and final negotiation of terms and conditions. Chair McElligott seconded the motion.**

Mr. Masten reported that the Fund, with a target size of $4.0 billion, will pursue control-oriented investments in asset-based businesses and asset portfolios in the U.S. and Western Europe. The Coinvestment Fund is a $1 billion fund that may invest alongside the Fund at the discretion of the general partner. He said that the recommendation is based, in part, on the following: (1) The Fortress team is experienced and stable with multidisciplinary expertise in asset-based investing. The core team has been investing together since 1987 and has over 60 years of collective experience, including asset valuation, structured finance, mergers and acquisitions, bankruptcy, real estate, capital markets, tax, and law; (2) The Fund will continue the differentiated investment strategy of targeting cash-flowing investments backed by physical and financial assets, including real estate-related assets, which can be acquired at a discount to intrinsic value; (3) The firm has a strong investment track record with substantial realizations. Over seven years, through four funds, Fortress has generated an aggregate net IRR of 44 percent on $6.4 billion of drawn capital, including $4.1 billion in distributions; (4) The Fund's asset-based strategy is unique within the WSIB's corporate finance sub-class, offering diversification benefits to the portfolio; and, (5) This is an opportunity to expand a relationship with a high-quality partner.

Treasurer Murphy asked if the key person risk identified is a standard provision.
Mr. Bruebaker confirmed that a two-thirds majority vote provision concerning the key person risk is very standard. He said the WSIB's vote would count more due to its investment size.

> **The above motion passed unanimously**

MatlinPatterson Global Opportunities Partners III, L.P.

Mr. Masten moved that the Board accept the Private Markets Committee's recommendation to approve an investment of up to $150 million, plus fees and expenses, in MatlinPatterson Global Opportunities Partners III, L.P., subject to continued due diligence and final negotiation of terms and conditions.

Mr. Masten reported that the fund has a target size of $3.5 billion and will invest globally in distressed opportunities, including severely discounted securities, obligations, assets, and business through which MatlinPatterson can obtain control or substantial influence. He said that the recommendation is based, in part, on the following: (1) MatlinPatterson has a stable, experienced management team that has worked together an average of 8.8 years and has taken a leadership role in 65 complex reorganizations since 1994; (2) MatlinPatterson maintains an opportunistic approach pursuing the most attractive distressed opportunities on a global basis and deploys team members to the office with the most investment activity at any given time; (3) The firm's strategy is differentiated from other distressed groups in that MatlinPatterson will look at severely discounted securities and distressed situations that have been overlooked or rejected by other investors as being too complex; (4) As of September 30, 2006, MatlinPatterson has produced an aggregate net IRR of 21 percent. Both Funds I and II rank in the first quartile of the Venture Economics U.S. Buyout universe for like vintage years; and, (5) The MatlinPatterson strategy is an excellent fit complementing other distressed groups in the WSIB private equity portfolio. Distressed remains at the lower end of its target range.

Mr. Petit seconded and the motion carried unanimously.

PUBLIC MARKETS COMMITTEE REPORT

The Public Markets Committee met on May 2, 2007.

Active U.S. Equity Investing Strategies

Mr. Scott moved that the Board approve the Public Markets Committee's recommendation to make no change to the current structure of the U.S. equity portfolio within the commingled retirement trust fund and that any actively-managed equity strategies beyond current strategies be introduced through the Innovation Portfolio. Examples include actively managed strategies with a bias toward style (e.g., value) or capitalization (e.g., small cap), global equity mandates, marketable alternatives, and other strategies that move toward less constrained portfolios. Mr. Petit seconded the motion.

Mr. Scott reported that the Committee participated in the final educational session related to the U.S. equity investment program structure, which included an overview and panel discussion of marketable alternatives, also called hedge funds. The discussion included such topics as the spectrum of investment strategies, key issues, role of the prime broker, relationship to private equity, and implementation. Following the discussion, staff requested that the Committee and Board anoint the current Index and Enhanced Index strategies for the U.S. public equity program within the Commingled Trust Fund (CTF) and specifically allow staff to employ active strategies such as small cap, value investing, 130/30 strategies, global equity mandates, and marketable alternatives within the Innovation Portfolio subject to the constrains of the Innovation Portfolio policy, which was distributed in the Board packet for reference. The Committee and staff believe that there are active U.S. equity strategies that warrant exploration and that type of exploration is exactly what was envisioned when the Innovation Portfolio was developed.

Treasurer Murphy asked if benchmarks for Innovation Portfolio investments would be brought to the Board. Mr. Dear said that the first Innovation Portfolio investment in infrastructure had been made and reported to the Board, and a benchmark was established but had not been brought to the Board. Mr. Bruebaker said that future Executive Director Reports of investments in the Innovation Portfolio would include benchmark information. He said that performance of the investment would be included in the next quarterly report following the investment.

The above motion carried unanimously.

Public Markets Equity – Retirement Funds Policy 2.10.100 Revision

Mr. Scott moved that the Board accept the Public Markets Committee's recommendation to approve the proposed changes to the Public Markets Equity – Retirement Funds Policy 2.10.100. Mr. Petit seconded the motion.

Mr. Scott reported that changes to the Board's Public Markets Equity - Retirement Funds Policy are needed to provide the flexibility to invest in the actively-managed strategies. The primary revision removes the prohibited transactions and formalizes the permissible strategies, transactions, and investments on a case-by-case basis through the manager agreements and guidelines. Treasurer Murphy announced that, since the Committee meeting, he requested that staff add language on page three of the policy because the proposed revision removed a notation concerning transactions prohibited by state law. An updated policy revision was distributed at the Board meeting for consideration.

The above motion carried unanimously.

CAPITAL MARKET ASSUMPTIONS

Ms. Will presented the annual capital market assumptions study. She noted the white paper included in the Board packet materials that describes the process used to reach proposed numbers. Typically, assumptions do not change dramatically from the previous year, as they are intended to be long-term numbers. The minor increases proposed this year are: fixed income TIPS by 25 basis points (bps) and cash by 50 bps. A more significant change is an increase in real estate by 75 bps. Changes in the market have shown public equity markets as lower risk, and consultants have lowered their risk to reflect this trend. Staff is also proposing lowering this risk assumption but not as much as consultants. Staff is proposing lowering the risk to international equities the same as consultants. Also, due to the increase in large buyouts within private equity, staff proposes lowering the risk to the private equity portfolio, but is increasing risk to real estate because the WSIB is taking more risk in this portfolio.

Treasurer Murphy asked Ms. Will for a meeting to discuss the Guaranteed Education Tuition capital market assumptions.

Mr. Nakahara observed that the consultants' risk profiles seemed consistent with the WSIB's except in real estate. Ms. Will explained that most consultants' real estate portfolios largely consist of REITS, and are not comparable to the WSIB's.

Mr. Masten moved that the Board adopt the 2007 WSIB capital market return, risk, and correlation assumptions as stated in the attached table. Mr. Scott seconded and the motion carried unanimously.

	Expected Return	Standard Deviation
U.S. Equity	8.50	17.00
International Equity	8.50	18.25
Fixed Income	5.25	5.00
Private Equity	12.50	31.00
Real Estate	8.50	14.50
Cash	3.75	1.50
TIPS	5.00	5.00
Global Equity	8.50	16.48

	U.S. Equity	International Equity	Fixed Income	Private Equity	Real Estate	Cash	TIPS	Global Equity
U.S. Equity	1.00							
International Equity	0.70	1.00						
Fixed Income	0.25	0.15	1.00					
Private Equity	0.70	0.65	0.15	1.00				
Real Estate	0.45	0.40	0.20	0.40	1.00			
Cash	0.05	-0.10	0.15	0.00	0.15	1.00		
TIPS	0.00	0.00	0.40	0.10	0.15	0.25	1.00	
Global Equity	0.80	0.85	0.20	0.68	0.38	0.00	0.00	1.00

[Mr. McElligott was no longer in attendance via teleconference at 11:21 a.m.]

QUARTERLY INVESTMENT PERFORMANCE AND ANALYSIS

WSIB Managed Funds

Mr. Bruebaker highlighted capital markets' activities for the quarter ended March 31, 2007. He reported the CTF's assets were at $78.9 billion. All asset classes were within their long-term allocation ranges, although interim targets for private equity and real estate were surpassed. He said that no adjustments would be made pending the upcoming asset allocation decision. The fund outperformed the Implementation Value Added, TUCS Public Fund > $1 billion median, and TUCS Public/Corporate Fund > $1 billion median benchmarks in every time period. The WSIB returns are in the 96th, 98th, 94th, and 92nd percentile for the one-, three-, five-, and ten-year ended March 31, 2007, compared to other large public funds. Performance is as good as it gets.

For the quarter, U.S. Equity was down 13 bps from the benchmark return. Enhanced managers did not add value during this quarter, but have since inception. International equities did extremely well, outperforming their collective benchmark for the quarter by 40 bps and by 22 bps for the year. The five- and ten-year performance was not favorable but that should improve as new manager performance appears in future quarters. For developed managers, Arrowstreet Capital performed exceeding well due to stock selection. Capital International was the best emerging markets performer. Fixed Income underperformed by 21 bps for the quarter, but outperformed for the one-, three-, five-, and ten-year by 5, 9, 33, and 34 bps respectively.

Mr. Nierenberg noted that he previously discussed portfolio insurance with staff. While specific types of portfolio insurance are too expensive, he said he remained interested in exploring more cost effective types of insurance for domestic and foreign equity in order to mitigate risk, such as tactical decisions to increase cash, individual contractual relationships, etc. He urged staff to continue thinking about protecting its record. Mr. Bruebaker noted that Pension Consulting Alliance had been tasked to include this topic in a discussion with staff slated for June and, if appropriate, at the Board retreat.

Mr. Bruebaker reported that, for defined contribution plans, the Bond Fund outperformed its benchmark by 11 bps and Cash Funds underperformed by 1 bp. Within the Balanced Funds, the TAP outperformed its benchmark by 245 bps, Long Horizon was equal, and the Mid Horizon outperformed by 4 bps, as did the Short Horizon. The Social Balanced Fund underperformed by 30 bps and is really struggling. The fund started out with strong performance, but has had poor results since. Its strategy to invest in high quality companies has not paid off recently. The managers do not plan to change their strategy, which Mr. Bruebaker finds comforting and he believes it will pay off.

Active strategies had a mixed quarter; the Active Value Fund outperformed by 64 bps, Active Core Fund underperformed by 71 bps, and the Growth Company Fund underperformed by 156 bps. Mr. Bruebaker pointed out that these funds have done well within the three-, five-, and ten-year time periods and he is confident performance will turn around.

Mr. Petit observed that the TAP benchmark seemed off. Mr. Bruebaker described that the TAP benchmark is within publicly traded securities. When looking at quarterly performance numbers, it is important to keep in mind that, while one quarter of performance is added, another quarter is dropped. Often times, it is the quarter that drops off the report that has the larger impact, but with less visibility.

Within Passive U.S. Equity funds, the U.S. Stock Market Index underperformed by 4 bps, U.S. Stock outperformed by 1 bp, U.S. Large Stock underperformed by 1 bp, and U.S. Small Stock was even to its benchmark. The Active Enhanced International underperformed by 4 bps and Passive International outperformed by 4 bps. Both options are managed by State Street Global Advisors.

Private Equity

Mr. Ruggels introduced Mr. Rieder of Capital Dynamics, who was recently reassigned to their San Francisco office. Mr. Rieder announced he would report on the private equity portfolio for the period ended December 31, 2006.

Mr. Rieder provided an overview of portfolio investment activity. There were $775 million in commitments authorized and closed during the quarter. The market value of the portfolio increased by $1.47 billion or 15.9 percent. This is a substantial increase from the previous quarter and almost twice the average appreciation over the previous four quarters. The portfolio's market value at quarter end exceeded $10 billion. The IRR since inception was at 15.4 percent; which increased from the previous quarter by 39 bps.

The KKR portfolio appreciated by $221 million, to $2.8 billion. The IRR since inception is 17.3 percent. The LP portfolio appreciated by $977 million to $7.9 billion. The IRR since inception is 13.2 percent.

There are 169 active investments within the portfolio. Four partnerships were added during the quarter: Hellman & Friedman Capital Partners VI, OCM Principal Opportunities Fund IV, Silver Lake Partners III, and TPG Star; and two partnerships exited: Menlo Ventures VI and Telecom Partners III.

Mr. Rieder reported that subsector allocation remained unchanged from previous quarters and all strategies are within target ranges, except venture capital. The portfolio is well diversified across industry sectors, with a noticeable allocation shift away from utilities to financials.

The portfolio has consistently outperformed its benchmark over all periods through ten years. International funds and small/medium corporate finance funds both contributed strongly during the quarter, with returns of 17.3 and 17.0 percent respectively.

Capital fundraising was very strong during 2006 and continues into 2007. While the availability of too much capital for investing is a concern, this can be dispelled by the significant rise in private equity investment activity during the same period, with firms pursuing larger transactions. Four of the ten largest buyouts in history have been announced in 2007. Mr. Rieder said that the trend of club deals is expected to continue due to globalization of the private equity industry and fierce competition for transactions. He detailed relationships between the top ten private equity firms.

Real Estate
Mr. Draper provided the real estate performance report for the period ended December 31, 2006. The portfolio was at $6.9 billion, which represents 11.8 percent of the CTF. There were $5.5 billion in unfunded commitments, as partners are being prudent and waiting for the right opportunities. Mr. Draper said there are no signs of the capital inflow to real estate letting up. Staff looks at individual markets to find appropriate opportunities within real estate's many global markets and property types. Diversification is very important as it helps with market volatility.

Mr. Draper reported that returns are very good. The WSIB outperformed the NCREIF benchmark, which reflects the market and how much partners added value through picking appropriate sectors and geographies. He described how the WSIB attempts to make deals that other investors underestimate.

Mr. Draper said that income returns were 4.9, 5.6, and 6.2 percent for the 1-, 3-, and 5-year periods respectively. He noted no material changes in portfolio diversification. The WSIB continues to include non-typical property types, which differentiates it from the NCREIF Index. Mr. Draper also said that WSIB is also different from the NCREIF, in its investments outside of the U.S.; NCREIF does not include non-U.S. investments. He said that staff commitments already made will cause the portfolio's Asia exposure to increase in coming quarters.

Mr. Kaminski asked if there was any sector of real estate that may warrant insurance to lock in returns. Mr. Draper said that the portfolio's construction provides insurance through its diversification. While staff is concerned about low cap rates, it does not believe rates will reverse to those seen ten years ago within a short timeframe. The portfolio focus is to maintain a constant income stream. Treasurer Murphy complimented Mr. Draper on the good quarter. Mr. Nierenberg observed that the portfolio is intelligently built with a lot of diversification and staff has done a very good job of picking the best managers in the world.

OTHER ITEMS
Mr. Kaminski asked for an executive session of the Board. No executive session was held.

There was no further business to come before the Board. The meeting adjourned at 12:31 p.m.

Pat McElligott
Chair

ATTEST

Joseph A. Dear
Joseph A. Dear
Executive Director