WASHINGTON STATE INVESTMENT BOARD
Board Meeting Minutes
November 15, 2007

The Washington State Investment Board met in open public session at 9:33 a.m. in the boardroom at 2100 Evergreen Park Drive SW, Olympia, Washington.

Present:	Glenn Gorton, Chair Sandy Matheson, Vice Chair Senator Lisa Brown Charlie Kaminski John Magnuson (via teleconference) Allan Martin George Masten Pat McElligott (via teleconference) Bob Nakahara David Nierenberg Mason Petit Judy Schurke Dave Scott Jeff Seely Representative Helen Sommers
Absent:	Treasurer Michael J. Murphy
Also Present:	Joe Dear, Executive Director Gary Bruebaker, Chief Investment Officer Tom Ruggels, Senior Investment Officer – Private Equity Steve Draper, Senior Investment Officer – Real Estate Diana Will, Senior Investment Officer – Asset Allocation Kristi Bromley, Administrative Assistant Marie Repcik, Administrative Assistant 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 Gorton called the meeting to order at 9:33 a.m. and roll call was taken.

OATHS OF OFFICE

Chair Gorton administered oaths of office to Representative Sommers and Senator Brown for two-year terms from January 1, 2008, to December 31, 2009.

ADOPTION OF THE SEPTEMBER 20, 2007, MINUTES

Mr. Masten moved to adopt the September 20, 2007, meeting minutes. Ms. Schurke seconded and the motion carried unanimously.

PUBLIC COMMENT

Marguerite Young, Western States Director of the Service Employees International Union (SEIU) Capital Stewardship Program, provided public comment on behalf of the local SEIU unions. Ms. Young stated she attends pension board meetings all over the U.S. In the five-years Ms. Young has worked with the WSIB staff and trustees of the Board, she has come to view everyone with respect for the integrity brought to the work and the thoughtfulness brought to the decisions made, and the ethical way the WSIB conducts business. Ms. Young stated that today's decision on asset allocation is the most important decision the Board has made in the past five years. Ms. Young requested that the Board have a full discussion, for the record, regarding the upside and the downside of the asset allocation decision. Ms. Young wants SEIU members to fully understand that the Board understands the decision being made today. Ms. Young urged the Board to go slow and not all the way to 25 percent in private equity. She looks forward to the discussion.

COMMITTEE MEMBER ASSIGNMENTS

Mr. Masten moved to accept the Chair's recommendation to:

- **Remove Sandy Matheson as the Chair of Audit Committee and appoint Mason Petit as the Chair. Sandy Matheson will remain on the Committee.**
- **Remove George Masten as the Chair of Private Markets Committee and appoint Patrick McElligott as the Chair. George Masten will remain on the Committee.**
- **Appoint Charles Kaminski as a Private Markets Committee member.**
- **Remove George Masten from the Administrative Committee and add Patrick McElligott and Mason Petit.**

Mr. Scott seconded and the motion passed unanimously.

EXECUTIVE DIRECTOR'S REPORT

Mr. Dear provided his November monthly report to the Board and stated that the proposed 2008 Board and Committee schedule has been attached with additional education sessions on risk and a new session on best practices of other pension funds as suggested by Mr. Nierenberg.

Voters approved two constitutional amendments that affect funds managed by the WSIB; the budget stabilization account, which will replace the emergency reserve account at the beginning of the new fiscal year; and allow investment in equities for the college and university permanent funds. Staff will bring the Board revised policies to reflect these changes.

Global managers have been selected and notified for the Innovation Portfolio. They are: Aberdeen Investment Management, Investec Asset Management, JP Morgan Asset Management, and Trilogy Global Advisors. Guidelines, contract ceiling amounts, and fees are being negotiated.

[The Board recessed at 9:54 a.m. and reconvened in open session at 10:14 a.m.]

ASSET ALLOCATION DISCUSSION

Mr. Bruebaker introduced himself, Mr. Draper, and Ms. Will. He stated that Mr. Draper would review tangible assets as a follow-up from the July Board retreat. Ms. Will would then begin the asset allocation presentation and Mr. Bruebaker would conclude the presentation and provide staff's recommendation.

Mr. Draper reviewed the benefits of investing in tangible assets. Both as a group and subgroups, tangible assets are likely to have returns that do not correlate well with other asset classes or each other, thereby providing diversification. Tangible assets also generate a long-term, high-quality, stable income stream, and should generate appreciation at least commensurate with inflation.

Tangible assets are generally defined as falling into five broad categories: agriculture, commodities, infrastructure, natural resource rights, and timber. Tangible asset investment opportunities are frequently blurred between these groups. Mr. Draper provided information regarding return sources for each category.

Mr. Draper concluded his presentation by noting that staff believes the inclusion of tangible assets in the commingled trust fund (CTF) would provide material benefits, including diversification along with attractive risk-adjusted returns. Tangible assets are likely to be purchased from both private and government sector sellers. He stated that staff recommends an allocation of 5 percent of the CTF, plus or minus 2 percent, noting that it will take some time initially to grow the portfolio to this range.

Discussion ensued regarding portfolio structure and various tangible asset types.

Ms. Will noted that this discussion was a continuation of discussions held over the last year. She encouraged active interaction throughout the presentation. The asset allocation discussion pertained to the retirement assets held in the CTF, 93 percent of which are defined benefit assets while 7 percent are defined contribution assets.

Asset allocation decisions are part art and part science, with no one right answer. The WSIB's legislative mandate is to earn the highest level of return with a prudent level of risk. The statute does not define "prudent level of risk". A common measure of risk is the efficient frontier, which depicts optimal portfolios with varying levels of risk and return. When looking at risk and return it is important to remember that higher risk portfolios have a greater potential for losing money as well as making higher returns.

The CTF asset allocation was last reviewed in the summer of 2005. Decisions made at that time were narrow: equally weight U.S. and international equities and add the Innovation Portfolio. No decision was made regarding the illiquid assets as both real estate and private equity were significantly below their targets. Now, private equity is more than 2.5 percent above its target and real estate is only slightly below its target.

Over the last year, the Board has had many educational sessions and discussion on topics related to asset allocation and staff has invested hundreds of hours on this topic. It is important to remember that even the science part of asset allocation is not perfect. Models are mathematical representations of a perfect world. The real world is not perfect.

Ms. Will reviewed the steps the Board has taken related to asset liability modeling. The Board's consultant used information on liabilities provided by the Office of the State Actuary, the WSIB's assumptions on capital market risk and return, and ran thousands of simulations that looked at funding ratios, contribution levels, and volatility.

As part of the work done with the consultant, Board members voted on their risk tolerances to various scenarios and the model then indicated what portfolio mix best meets those risk goals. The model then produced an optimal portfolio mix taking into consideration assets and liabilities as well as risk preference. What the mathematical model does not take into account are real world considerations, such as the required time to increase our exposure to certain asset classes, size constraints, liquidity concerns, access to top-tier managers, implementation costs, staffing concerns, and unexpected events not factored into the model.

The art side of asset allocation addresses those types of issues. Specifically addressing liquidity, Ms. Will stated that the Board can put more assets into illiquid markets. She reviewed information on expected growth in assets in the CTF, contributions, and benefits. She reviewed some worst case scenarios focusing on expected total return and dividend return. She noted that benefit payments could still be met with the addition of more illiquid assets.

[Mr. McElligott was in attendance at 10:47 a.m.]

Vice Chair Matheson inquired on the method used to determine the anticipated income return and Ms. Will confirmed that the information was obtained from the Office of the State Actuary and is the same information they present to the Legislature.

Ms. Will noted the domino effect of possible negative scenarios. Mr. Bruebaker stated that staff's recommendation is with the understanding that future planned commitments will be sized to manage the portfolio to its target allocation. The range would account for timing variations caused by the imperfect modeling process.

Mr. Kaminski noted that the size of the WSIB's allocation to illiquid assets could be controlled by slowing down the investment pace. Mr. Bruebaker stated that would have a very slow impact and would be done prudently if something happened to affect the money the Board could put to work.

Mr. Bruebaker highlighted staff's recommendation: real estate at 13 percent, the size staff believes can be sustained without harming the return; tangibles at 5 percent, the amount staff believes can be invested in the next four years; and private equity at 25 percent, the amount staff believes to be the correct amount to invest with quality partners in this illiquid asset class.

Discussion took place regarding the effects of public equity returns and the overall size of the CTF on the percentage allocated to private equity at any given time. Mr. Bruebaker reviewed the expected CTF return using a 90 percent confidence level of the proposed allocation, noting that private equity drives the upside potential and the addition of tangible assets is expected to improve or lessen the downside results.

Mr. Bruebaker reviewed the substantial time the Board has invested in strategic asset allocation over the last 16 months. The recommendation to increase the private equity allocation is based on solid reasoning: the private equity model has sustainable advantages over the public equity model; the WSIB has relationships with top quartile private equity partners to allow us to deploy the capital needed to reach the allocation target: it is consistent with the belief that our private equity program will earn a premium over public markets sufficient to compensate the fund for the additional risk and the belief that the fund does not have liquidity needs that would preclude such an allocation. Mr. Bruebaker then highlighted quotes from investment experts that support the fact that the private equity model has sustainable advantages over the public equity model.

The relationship the WSIB has with top quartile partners separates us from other public funds. In the entire private equity portfolio, 79 percent is invested with top quartile funds and 91.7 percent is invested in first and second quartile funds. The WSIB is compensated for the risk taken in this program through the relationships we have built over the past 25 years. Our performance in private equity is not a one hit wonder, but rather shows year after year of hard work to create value.

Mr. Bruebaker reviewed the difference in the growth in assets between a 17 percent allocation to private equity and a 25 percent allocation at various rates of return. Mr. Bruebaker noted with an allocation to private equity of 25 percent the WSIB would look closer to the endowment model rather than the public fund model, which is what we should look like in order to take advantage of the lack of liquidity needs of the fund.

Mr. Masten moved that the Board approve the adoption of staff's recommended targets for the Commingled Trust Fund as detailed below.

	Target	**Range**
Global Equity	**37%**	**± 5%**
Fixed Income	**20%**	**± 4%**
Private Equity	**25%**	**± 4%**
Real Estate	**13%**	**± 3%**
Tangible	**5%**	**± 2%**
Innovation	**0%**	**+5%**
Cash	**0%**	**+2%**

Vice Chair Matheson seconded.

Mr. Seely applauded the quality and quantity of work the staff has done and the level of education delivered to the Board. He stated his full support of staff's recommendation and the move to the endowment model to take advantage of our low need for liquidity. He also stated that with the changes to the private equity market, raising the private equity allocation while lowering our overall allocation to equities is not riskier.

Mr. Nakahara noted that the Board is a long-term investor and private equity will provide outperformance over the public markets of between 300 and 500 basis points. The Board takes into account real world considerations such as the shift in balance of power of who controls the money. He spoke to the increased interest in private equity of the huge sovereign wealth funds, which are highly discretionary. Maintaining and creating relationships with high quality general partners is critical to our success.

Mr. Nierenberg noted his agreement with the previous comments. If the WSIB strives to be the best at what we do, then we have to invest with the best, as we have been. Plan beneficiaries benefit if we are the best. We are fortunate to have high quality staff in all regards. People that are the best like to work with the best; this will help us attract and retain the best staff which will help us get into and maintain the best relationships. It's a virtuous circle.

Mr. Magnuson spoke to the marginal increase in real estate, noting that even though it is a small increase it comes at a good time. What is portrayed in the news is not a very accurate reflection of what real estate is in terms of institutional opportunities. A downturn or hiccup in the market gives us opportunities to invest. Increasing the allocation to real estate increases our ability to take advantage of market opportunities.

Mr. Kaminski noted that other funds could probably not implement what we are doing because of the dramatic weighting to top quartile managers—the result of 25 years of hard work—which is not easily duplicated. The WSIB will remain an outlier and that is good.

Mr. Scott noted that he always listens carefully to what the nonvoting Board members say. While there is a risk in being an outlier in private equity, there is also a risk from not maximizing the potential from the relationships we have developed over the past 25 years.

Mr. Martin agreed with all the comments and applauded the Board for the good work they've done. He stated his appreciation for the public comment made earlier in the day. He believes the rightness or wrongness of the decision is on a scale of risk and staff did a good job presenting the recommendation. He stated that he would vote no on the increased private equity allocation as, for him personally, the range of up to 29 percent was too much of an outlier. With the current unfunded commitments and the long time frame required to allocate the recommendation there is too much risk. Coming from the treasury world, the 12-year average life horizon of funds is very long and the illiquidity is a concern to him. The possibility exists that we could have a cash flow problem and 25 percent plus or minus 4 percent is higher than he would like.

Mr. Masten spoke on behalf of his motion and stated that he has been pushing for a larger allocation to private equity for some time as it is clear that our returns have benefited from the alpha we get from private equity and real estate. He is not concerned about liquidity and noted that the Board had a consultant perform a cash flow analysis several years ago that showed the Board was not going to have a liquidity problem. Staff's recommendation will provide benefit to the beneficiaries. Yes there is risk, but there is risk in everything.

Senator Brown asked if the advantage of the private equity model over the public equity model was sustainable over a period of time and why. Mr. Bruebaker responded that the asset class he worries about most is public equity because there are agency problems built into the public equity model. For the managers hired to run public companies, personal wealth maximization is more important than building wealth for their shareholders. In the private equity model, there is alignment of interest and the managers only make money when the shareholders (the funds) make money. Mr. Bruebaker pointed out that the level of returns achieved recently in private equity are not sustainable, but staff believes that over a full market cycle private equity investments of the WSIB will continue to outperform public equity by a amount sufficient to compensate the Board for the additional risk.

Discussion ensued regarding the increased likelihood of a national and/or global recession or market downturn. Mr. Bruebaker stated that although a recession would not be good for current investments in either private or public equity, having money invested with private equity managers in down periods would be preferable to investments with public equity companies.

Mr. Nierenberg noted a recent study by Josh Lerner and Antoinette Schoar of university endowments that have private equity allocations most similar to the WSIB. The study showed that the funds with the highest allocation to private equity outperformed their peers over the difficult years of 2000 to 2002.

Mr. Kaminski also noted that a slow down would actually benefit our private equity partners relative to new investments.

Mr. Dear spoke to the very large transactions and debt incurred in recent private equity transactions. He stated that these risks have already been taken and will not be affected by the new allocation. The private equity model has staying power that is not arbitraged away due to more capital being available.

Senator Brown noted that she came on board more skeptical of private equity than most and stated her appreciation for the thorough analysis. She likes the allocation to tangibles and the Innovation Portfolio—the ability to be on the cutting edge.

At the suggestion of Mr. Kaminski, Mr. Woolford, Capital Dynamics, introduced himself and spoke toward the persistence of performance of private equity managers seen in Capital Dynamics' analyses. He noted that the WSIB has a great advantage in terms of the relationships developed with top private equity firms and, because of that, the Board can expect persistence of performance. Some research shows that top quartile managers perform better because they take on more risk rather than as a result of skill. However, in private equity, this is not necessarily the case.

Vice Chair Matheson stated that the Board has spent a lot of time in a long term, well thought out process based on our skill set and this is a thoughtful allocation for the benefit of our beneficiaries.

Chair Gorton stated his appreciation for the work the Board and staff have done over the past year or more. He stated that the 25 percent allocation to private equity plus or minus 4 percent was outside his comfort zone and he would be voting no. While he is not comfortable going to 25 percent, he does not believe the Board will be hurt by doing so.

Mr. McElligott noted the active discussion over the past year and stated that he is one of the members that think the 25 percent allocation to private equity is necessary.

The above motion passed with Mr. Martin and Chair Gorton voting no.

[Mr. McElligott was no longer in attendance at 11:50 a.m.]

ADMINISTRATIVE COMMITTEE REPORT
Compensation Committee
The Administrative Committee met just prior to the Board meeting. Mr. Seely stated that the WSIB did not previously have a compensation committee; thus, one was formed and met to compare survey information with other comparable funds. Mr. Seely stated that a performance-based compensation structure helps attract and retain employees. The Administrative Committee voted to bring the recommendation to the Board.

Chair Gorton moved, on behalf of the Administrative Committee, that the Board support legislative action to revise the language in RCW 43.33A.100 to:

- **Clarify that the retention pool can apply to reward performance with incentive compensation at year-end**
- **Remove the 5 percent limit on the retention pool**
- **Clarify that the retention pool access to "earnings of the funds" constitutes access to non-appropriated funds**
- **Clarify and amend the definition of peers to (1) public funds that are at least 75 percent of the size of all WSIB assets and (2) include large endowments.**

Vice Chair Matheson seconded the motion.

Senator Brown stated that the legislature gave the universities a recruitment and retention pool that they can utilize to attract and keep the best professors and researchers at the university level. It seems appropriate to have a similar and flexible mechanism at the WSIB. We don't want to wait until we have a huge retention problem before addressing the issue.

Vice Chair Matheson expressed support for the recommendation. She stated there are positions that are very difficult to recruit and are critical to the organization; this targets those positions.

Mr. Masten stated he is voting no because he hasn't seen any numbers regarding turnover over the last five years. Mr. Masten believes the Board is taking a risk by using non-appropriated funds.

Mr. Petit stated that he supports the idea because he knows it is important to recruit and retain high quality employees.

Senator Brown stated that there is no guarantee that this will pass the legislative process. Only one out of ten bills makes it to the Governor's desk.

The above motion passed with Mr. Masten voting no.

Assistant Attorney General's Report
Mr. Silver had nothing to report.

[The Board recessed at 12:03 a.m. and reconvened in open session at 12:30 p.m.]

[Mr. Seely was no longer in attendance at 12:03 p.m.]

INVESTMENT BELIEFS
Mr. Bruebaker stated the presentation sets out various investment beliefs of the WSIB investment staff. It is imperative that the investment beliefs of the Board and staff be aligned. Investment beliefs are the fundamental assumptions or principles upon which an investment program and its policies are premised. Investments beliefs explain why we manage our assets the way we do; are generally developed slowly over time by successive fiduciaries; facilitate discussions on how the fund should be managed; help ensure consistency and discipline; and provide guidance or a framework to staff, consultants, managers, and Board members.

He stated that investments beliefs are important because they are the foundation of the entire investment program. Without firmly held beliefs, investors will question the soundness of the investment program every time it underperforms the market. Even sound beliefs will look foolish for short periods of time. Developing a set of investment beliefs makes sense from a strategic perspective: an organization has to identify where and how it can add value to the investment process.

Mr. Bruebaker quoted Representative Sommers, "Now that we've built this perspective and history, the challenge is to ensure its succession with future boards." He believes this exercise is an important step towards meeting that challenge. There are 19 investment beliefs in the areas of mission, risk, asset allocation strategy, active management, performance measurement, and organizational core competencies.

Mr. Bruebaker began presenting the 19 investment beliefs.

Mr. Petit asked what structure is utilized to study risk on a routine basis. Mr. Bruebaker stated Enterprise Risk Management (ERM) is used to study risk. Ms. Will and Ms. Vandehey work together and look at operational and investment portfolio risk. They are working to ensure they are using correct measures to determine risk. Mr. Nierenberg asked what the daily, weekly, or monthly routine looks like. Ms. Will responded by saying there is not an integrated way of looking across all asset classes in a complete group, a capability the data warehouse now in development is intended to create. Mr. Dear explained the primary risk management tool currently being used to manage investment risk is diversification. We are not coming to this with a terrible deficiency but we do have a desire to be more systematic and risk aware as we go forward.

Senator Brown asked if staff sees something on the horizon how does it get discussed at the WISB organizational level. Mr. Bruebaker stated information comes to the surface in three ways: discussion at the individual transaction level; our internal investment committee; and annual planning for real estate and private equity.

Mr. Ruggels stated one of his strongest beliefs is that while skilled private equity partners demonstrate persistence in performance, even skilled partners will inevitably have unsuccessful funds. Mr. Ruggels explained WSIB has large portfolio of good managers, but that each of them is capable of having a bad fund. This is why the WSIB focuses on developing a well diversified portfolio. Vice Chair Matheson stated when staff makes a recommendation they make it in context with the entire portfolio not the individual investment.

Mr. Bruebaker completed the presentation of investment beliefs. The staff will show how they apply in the context of investment decisions or as the opportunity arrives.

AUDIT COMMITTEE REPORT – NONVOTING BOARD MEMBERS TERM EXPIRATION

Vice Chair Matheson reported that the Audit Committee met on September 28, 2007. At the meeting, Ms. Killman, Internal Auditor, presented a management letter recommendation regarding the custodian bank contracting authority at the WSIB. The Committee discussed the relationship of the Office of the State Treasurer, the WSIB, and the custodian bank and requested that staff continue to monitor the custodian contract relationship during this contract period and bring any further evaluation to the Committee if necessary.

Vice Chair Matheson stated that the terms of two nonvoting board members, Mr. Robert Nakahara and Mr. Jeffrey Seely, are set to expire. Both have expressed interest in serving another term. Committee members expressed appreciation for their past service and support for their continued participation.

> **Vice Chair Matheson moved, on behalf of the Audit Committee, that the Board accept the Audit Committee's recommendation to reappoint Robert Nakahara and Jeffrey Seely for three year terms from January 1, 2008, to December 31, 2010. Chair Gorton seconded and the motion passed unanimously.**

Vice Chair Matheson told the Board that the Committee approved the meeting schedule for 2008. The dates selected are: February 5, April 1, September 9, and December 4.

PRIVATE MARKETS COMMITTEE REPORT

Chair Gorton reported that the Private Markets Committee met on November 1, 2007, and discussed four investment recommendations.

Real Estate Investment Recommendations

Kitson Evergreen, LLC

Chair Gorton moved, on behalf of the Private Markets Committee, that the Board approve an investment of up to $400 million, plus fees and expenses, in Kitson Evergreen, LLC, subject to continuing due diligence and final negotiation of terms and conditions. Vice Chair Matheson seconded.

Chair Gorton stated that Kitson is a real estate operating company (REOC) focused on creating large-scale master-planned communities in Florida. The WSIB currently has a commitment of $200 million in Kitson through its investment in Evergreen Real Estate Partners. Evergreen is committing an additional $150 million to Kitson at this time as well.

The above motion passed unanimously.

Fillmore West Fund, L.P. and Fillmore Strategic Investors, LLC Follow-on Investment

Chair Gorton moved, on behalf of the Private Markets Committee, that the Board invest $200 million, plus fees and expenses, in Fillmore West Fund, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Mr. Martin seconded.

Chair Gorton said the fund will acquire, manage, enhance, and dispose of structured investments in real estate assets and real estate operating companies. The Board has had a successful relationship with Fillmore, investing in their previous fund and through investments made while the team was at Lowe Enterprises, and also through Fillmore Strategic Investors, to which a separate recommendation is being made for a follow-on commitment.

Ms. Schurke inquired about the key person, Syd Kitson, and his participation with the company. She asked how the Board and staff can know if he is spending adequate time on the fund before it is too late. Mr. Bruebaker responded by stating we are on the company's advisory committee and our team will know because we are so close with this group.

Mr. Magnuson stated that this is opportunistic investing when the credit market is in turmoil. Financing for real estate still continues and still seems to be viable, in this case driven by demographics, specifically in hospitality properties and retirement housing. We only have two structured finance managers and it would be difficult to replace a manager of this quality.

The above motion passed unanimously.

Chair Gorton moved, on behalf of the Private Markets Committee, that the Board approve a follow-on investment of $600 million, plus fees and expenses, in Fillmore Strategic Investors, LLC, subject to continuing due diligence and final negotiation of terms and conditions. Vice Chair Matheson seconded.

Chair Gorton stated Fillmore Strategic Investors is currently a $606 million investment partnership exclusively between Fillmore and the WSIB. Fillmore Strategic Investors invests in transactions that fall outside the parameters of the Fillmore Funds' investment restrictions. The partnership focuses on structured finance investments primarily in real estate sectors with significant operating components.

The above motion passed unanimously.

Private Equity Investment Recommendations

HarbourVest Global Private Equity, Ltd.

Chair Gorton announced that the Board would go into executive session at 1:55 p.m. to discuss financial and commercial information relating to an investment since public knowledge regarding the discussion would result in loss to the funds managed by the WSIB or would result in private loss to the providers of the information. The executive session was expected to last about 5 minutes, at which time the Board would reconvene in open session.

[The executive session concluded and the Board reconvened in open session at 2:04 p.m.]

Chair Gorton moved, on behalf of the Private Markets Committee, that the Board authorize staff to take action regarding certain HarbourVest Partners funds, as discussed in executive session. Mr. Masten seconded and the above motion passed unanimously.

[Mr. Magnuson was no longer in attendance at 2:05 p.m.]

LABOR AND INDUSTRIES' FUNDS REPORT

Mr. Daniels, Conning Asset Management, introduced himself and reviewed the portfolio strategy for the Labor and Industries (L&I) Consolidated Portfolio as of September 30, 2007. He noted that L&I's investment strategy addresses the unique needs of a workers' compensation insurer and differs from a total return fund.

Mr. Daniels reviewed L&I's portfolio objectives: maintain the solvency of funds; maintain premium rate stability; ensure sufficient assets are available to fund the ultimate liabilities; and, subject to the other objectives, earn a maximum return at a prudent level of risk. He reviewed total returns for the three L&I funds as of September 30, 2007, noting that small and steady returns are important, and also reviewed the financial statements as of June 30, 2007.

Mr. Daniels reviewed a comparison of L&I to its two peer groups, 16 state funds and 13 private insurers, including financial summaries; profitability measurers; financial leverage; asset allocation; stock allocation trends; surplus exposures; and bond sectors, maturity, and quality.

QUARTERLY INVESTMENT PERFORMANCE AND ANALYSIS

Discussion

Mr. Bruebaker reviewed the implementation value added attribution analysis for the quarter ended September 30, 2007. The allocation decision helped performance for the quarter, with the underweight to fixed income adding 6 basis points and the overweight to private equity adding

11 basis points. Manager decision accounted for a gain of 18 basis points in real estate, 21 basis points in private equity, and 6 basis points in fixed income. Manager decision in U.S. public equity was negative 8 basis points and international public equity was negative 22 basis points.

Mr. Nierenberg inquired about the performance of the Barclays Global Investors enhanced index fund during the third quarter. Mr. Bruebaker noted that, as expected, things were better in September than they were in July and August, but not enough to make up for what happened in July and August.

[Senator Brown was no longer in attendance at 2:36 p.m.]

Private Equity

Mr. Ruggels noted that results for the private equity portfolio are good. Mr. Woolford, Capital Dynamics, provided a market outlook for 2008. Capital Dynamics does not expect a recession in 2008 but sees decreased real gross domestic product growth, increased inflation, and decreased corporate operating profit growth. For venture capital, deal flow is strong—the highest since 2001, exits are moderate, and fundraising eclectic. For mega/large cap, covenant-light debt is no longer available, the leverage overhang is making quiet but steady progress, terms are more controversial than price, and fundraising remains intact. For small/mid cap, there is limited leverage impact, mezzanine opportunity is growing, multiple arbitrage is occurring and fundraising is eclectic. For distressed/turnaround, deal flow is still limited, exits are moderate, and fundraising is strong.

Discussion ensued regarding the impact of the credit tightening on private equity general partners.

[Mr. Nakahara was no longer in attendance at 2:49 p.m.]

Mr. Woolford concluded the market condition discussion with points on fundraising, investments, and exits.

Mr. Ruggels commented on deal activity, noting that this will likely be the first year in the last five where there has been more money drawn than returned to the WSIB in the private equity portfolio.

Real Estate

Mr. Draper said that the quarterly report is good news and made comments on three areas in the market place. Capital inflows to real estate continue to grow at an increasing rate; large sums of capital are being committed to real estate by sovereign wealth funds.

The current credit market disruptions have the potential for both positive and negative effects on our portfolio. As long-term investors, opportunities may become available due to the slight softening of prices in some areas and property types, and by the lack of need by the WSIB to use leverage if good leverage is not available. If lower leverage levels are used, it will likely result in lower returns.

The weak U.S. dollar may mean it is a risky time to invest in non-dollar denominated investments; at the same time, we see more opportunities outside the U.S. Therefore, quality underwriting and understanding risk are even more critical than usual for both staff and our partners.

BOARD DISCUSSION

Chair Gorton announced that the Board would go into executive session at 2:58 p.m. to review and discuss the performance of Board members and of the Board. He said the executive session was expected to last approximately five minutes, at which time the Board would reconvene in open session.

[The Board reconvened in open session at 3:04 p.m.]

OTHER ITEMS

There was no further business to come before the Board. The meeting adjourned at 3:04 p.m.

Glenn Gorton
Chair

ATTEST

Joseph A. Dear
Executive Director