

WASHINGTON STATE INVESTMENT BOARD
Board Meeting Minutes
December 18, 2008

The Washington State Investment Board met in open public session at 9:32 a.m. in the boardroom at 2100 Evergreen Park Drive SW, Olympia, Washington.

Present: Glenn Gorton, Chair (via teleconference)
Sandy Matheson, Vice Chair
Charlie Kaminski (via teleconference)
John Magnuson (via teleconference)
Treasurer Mike Murphy
George Masten
Pat McElligott
Bob Nakahara (via teleconference)
David Nierenberg (via teleconference)
Mason Petit (via teleconference)
Mike Ragan
Jeff Seely (via teleconference)
Representative Helen Sommers (via teleconference)

Absent: Senator Lisa Brown
Judy Schurke

Also Present: Joe Dear, Executive Director
Gary Bruebaker, Chief Investment Officer
Theresa Whitmarsh, Chief Operating Officer
Steve Draper, Senior Investment Officer – Real Assets
Bill Kennett, Senior Investment Officer – Fixed Income
Phil Paroian, Senior Investment Officer – Public Equity
Tom Ruggels, Senior Investment Officer – Private Equity
Diana Will, Senior Investment Officer – Asset Allocation
Janet Kruzel, Investment Officer – Private Equity (via teleconference)
Kristi Haines, Executive Assistant

Steve Dietrich, Assistant Attorney General

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

Vice Chair Matheson called the meeting to order and took roll call.

ADOPTION OF THE NOVEMBER 20, 2008, MINUTES

Mr. McElligott moved to adopt the November 20, 2008, meeting minutes.
Mr. Ragan seconded, and the motion carried unanimously.

[Mr. Seely joined the meeting via teleconference at 9:34 a.m.]

PUBLIC COMMENT

There was no public comment.

[Representative Sommers joined the meeting via teleconference at 9:40 a.m.]

RECOGNITION

Several Board members joined Vice Chair Matheson and Chair Gorton in recognizing and appreciating the contributions of departing Board members Treasurer Mike Murphy and Representative Helen Sommers, who leave the Board after 12 and 9 years of service, respectively. Each has done a remarkable job on behalf of pension fund beneficiaries, and will be greatly missed.

EXECUTIVE DIRECTOR'S REPORT

Mr. Dear provided his monthly report for December on board governance, investments, staff, operations, public affairs, meetings, and open procurements.

ADMINISTRATIVE COMMITTEE REPORT

2009 Strategic Plan

Mr. Dear said the Administrative Committee reviewed the 2009 Strategic Plan in detail. The Strategic Plan is an incremental adjustment to the previous plan and in line with the six-year plan approved by the Board in June. It is based on the value, capacity, and support framework, which is supported by a skillful Board. In response to Mr. Kaminski's question, Mr. Dear said the six-year framework has proven helpful in developing the annual strategic and resource plans.

Within the value area, staff suggests conducting an asset liability study to enable a review of the strategic asset allocation of the Commingled Trust Fund, completing a thorough liquidity analysis, and improving risk management. Tactical initiatives are to implement the 2009 investment plans, and develop the 2010 plans.

Within the support area, staff suggests projects relating to public outreach and communication, and collaboration. Tactical initiatives are to expand the compliance program including real assets and securities lending.

Within the capacity area, staff suggests increasing capacity to manage global funds, tangible assets, active marketable securities funds, and other innovative vehicles; as well as plans to attract, develop, and retain skilled staff. These efforts depend in part on budget approval. Staff also plans to undertake expense reduction and efficiency efforts. Tactical initiatives are planned in the areas of data and analytics, investment accounting, human resources, and electronic records.

To support a skillful Board, staff has planned strategy sessions on liquidity and asset allocation; and education sessions on research, risk, infrastructure, behavioral finance, and governance.

Mr. Ragan moved that the Board approve the 2009 Strategic Plan.

Mr. McElligott seconded the motion.

Mr. Petit complimented staff's work to develop the comprehensive plan.

The above motion carried unanimously.

Executive Director Performance Evaluation Process

Vice Chair Matheson noted the suggested changes to the process. Treasurer Murphy noted an additional typo correction. There were no other suggested changes.

Assistant Attorney General's Report

Mr. Dietrich had nothing to report.

AUDIT COMMITTEE REPORT

Fiscal Year 2008 Independent Auditors' Report

Mr. Petit reported that the Committee approved the Fiscal Year 2008 financial statement audit report of Peterson Sullivan PLLC. The auditor concluded that the financial statements were presented fairly, in all material respects.

Mr. Petit moved that the Board approve the Fiscal Year 2008 Independent Auditors' Report. Treasurer Murphy seconded, and the motion carried unanimously.

State Auditor's Office Fiscal Year 2008 Accountability Audit Report

The Committee approved the SAO's Fiscal Year 2008 accountability audit, which included no audit recommendations, making it the seventeenth consecutive year the WSIB has had no audit findings.

Mr. Petit moved that the Board approve the 2007-2008 State Auditor's Office Accountability Audit Report. Treasurer Murphy seconded, and the motion carried unanimously.

Mr. Petit said the Audit Committee also received an overview of the WSIB's investment compliance program, were updated on the Audit Recommendation Status Report, received a report on the 2008 Proxy Season Voting and previewed 2009 Proxy Voting, and discussed the cost/benefit of the securities lending program with having the ability to recall the shares to vote. Staff will continue to research this topic and revisit this at the next Committee meeting. Staff also conducted an education session Limited Liability Companies.

[The Board briefly recessed at 10:30 a.m. and reconvened in open session at 10:45 a.m.]

PUBLIC MARKETS COMMITTEE REPORT

Mr. Ragan reported that the Public Markets Committee met on December 2 to consider the results of the Transition Management RFQQ search and the Public Equity 2009 Annual Plan.

Transition Management RFQQ Search Selection

Mr. Ragan moved that the Board approve the selection of Barclays Global Investors, N.A.; BlackRock, Inc.; and Russell Implementation Services, Inc. as transition managers for assignment to the optional-use transition management pool, subject to final negotiations of terms, conditions, and fees. Mr. McElligott seconded the motion.

Mr. Ragan said that transition management is the restructuring or rebalancing of a portfolio from single or multiple investment managers and asset classes in the most cost effective and efficient method. The WSIB utilizes transition managers under an optional-use contract on an as needed basis. Over 5 years ago, the WSIB was at the forefront of the industry when we, in conjunction with Callan Associates, developed a pool of transition managers to call upon when needed. Since then the manager pool concept has taken hold throughout the U.S. in public and other plans. This search was done to rebid the contracts, to expand the pool, and to stay in the forefront as the industry changes by doing such things as requiring the transition managers to work together to achieve best execution during future transitions. The results of this search fully populate the pool of managers with a complete skill set that can respond to any future needs of the WSIB that may arise.

The above motion carried unanimously.

[Mr. Nierenberg joined the meeting via teleconference at 10:48 a.m.]

Vice Chair Matheson announced that the Board would go into executive session 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. She said the executive session was expected to last about 30 minutes, at which time the Board would reconvene in open session.

[The Board convened in executive session at 10:48 a.m. and reconvened in open public session at 11:34 a.m.]

Public Equity 2009 Annual Plan

Mr. Ragan moved that the Board adopt the confidential 2009 Public Equity Annual Plan that was presented and discussed in executive session. Treasurer Murphy seconded, and the motion carried unanimously.

PRIVATE MARKETS COMMITTEE REPORT Real Estate Annual Plan

Mr. McElligott moved that the Board adopt the confidential 2009 Real Estate Annual Plan modest case that was presented and discussed in executive session. Chair Gorton seconded, and the motion carried with Treasurer Murphy voting no.

Tangible Assets Annual Plan

Mr. McElligott moved that the Board adopt the confidential 2009 Tangible Assets Annual Plan that was presented and discussed in executive session. Mr. Ragan seconded, and the motion carried unanimously.

Real Assets Consultant Pool Selection

Vice Chair Matheson moved that the Board approve the consulting firms in the stated categories, subject to continued due diligence and final negotiation of terms and conditions, as declared in the table below. Mr. Masten seconded the motion.

Category	Recommended Firm
Emerging Markets Real Estate Investment Consultant Pool	Courtland Partners, Ltd.; Pension Consulting Alliance, Inc.; and RV Kuhns & Associates, Inc.
Tangible Assets Investment Consultant Pool	Cliffwater LLC; Courtland Partners, Ltd.; Ennis Knupp & Associates, Inc.; ORG Portfolio Management LLC; Pension Consulting Alliance, Inc.; and RV Kuhns & Associates, Inc.
Performance Reporting Services for Emerging Markets Real Estate and Tangible Assets Investments	Courtland Partners, Ltd.

Mr. McElligott asked if the motion was for real assets or real estate. Mr. Bruebaker said one was for real estate, and there were three categories incorporated into the motion.

The motion carried unanimously.

ECONOMICALLY TARGETED INVESTMENTS ANNUAL REPORT

Ms. Kruzel presented the sixth annual report on Economically Target Investments. She said there was a continued focus on regional relationships in 2008. Over six years, staff has met with 70 firms and funds. She reviewed 2008 activities, including her participation in the Institutional Limited Partners Association (ILPA) which examined best practices to help programs develop and run effectively.

Ms. Kruzel reported that Washington investments in the WSIB portfolio are down 8.6 percent overall. The decrease can be attributed to market conditions and asset allocation changes within public equity, and bond maturity in fixed income. Washington investments are up within real estate

by 3.6 percent and in private equity by nearly 37 percent. As of June 30, there was \$144.2 million in value in private equity investments in Washington-based companies, in 83 funds among 44 general partners, which are diversified across nine industries.

According to the MoneyTree Report, all numbers of deals and dollars invested are up for U.S. venture capital investing for the period July 1, 2007, through June 30, 2008. Overall there is \$31.4 billion in more than 4,000 deals. The Pacific Northwest captured 5 percent of that, with Washington taking 84 percent of what was invested in the Northwest, or 4 percent of U.S. dollars. She said that Seattle is considered one of the fastest growing regions outside of the Silicon Valley. Within the past ten years, the number of companies has doubled, and dollar amounts have tripled.

Ms. Kruzel reported on the results of the sixth annual poll of WSIB general partners' consideration of Washington-based investments. Forty-two of WSIB's 55 general partners responded, with a total of 1,662 deals reviewed; 709 were not pursued. There are 913 deals in the pipeline with 40 deals completed. This reveals that Washington continues to earn the interest of and access to top general partners.

Mr. Kaminski requested to have a separate line added to the breakdown of Washington-based investments, to show the percentage of general partners responding to WSIB's annual inquiry. He noted that, in the six years Janet has been leading this effort, it is clear that she has grown it in a major way. It is also clear that the non-Washington based GPs are fully aware that this is not only something we are watching, but also something that those GPs can benefit from. Mr. McElligott thanked Ms. Kruzel for the good report.

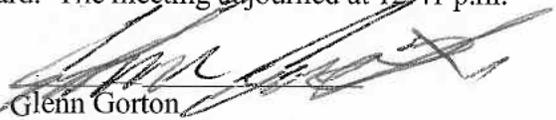
[Representative Sommers and Messrs. Seely, Nierenberg, and Kaminski were no longer participating via teleconference at 12:08 p.m.]

[Mr. McElligott departed at 12:08 p.m.]

[The Board briefly recessed at 12:08 p.m. and reconvened in open public session at 12:41 p.m.]

OTHER ITEMS

There was no further business to come before the Board. The meeting adjourned at 12:41 p.m.


Glenn Gorton
Chair

ATTEST


Joseph A. Dear
Executive Director