WASHINGTON STATE INVESTMENT BOARD
Board Meeting Minutes
September 17, 2009

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

Present:	Pat McElligott, Chair Treasurer Jim McIntire, Vice Chair Steve Hill Charlie Kaminski George Masten John Magnuson Bob Nakahara David Nierenberg Mason Petit Mike Ragan Representative Sharon Tomiko Santos Judy Schurke Jeff Seely
Absent:	Senator Lisa Brown
Also Present:	Theresa Whitmarsh, Acting Executive Director Gary Bruebaker, Chief Investment 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 Steve Lerch, Research Director Kristi Haines, Executive Assistant Steve Dietrich, Assistant Attorney General Neil Rue, Pension Consulting Alliance, Inc. Michael Humphrey, Courtland Partners Mike Heale, Cost Effectiveness Measurement

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

Acting Chair McElligott called the meeting to order and roll call was taken.
[Mr. Seely arrived at 9:31 a.m.]

CHAIR AND VICE CHAIR ELECTIONS
Acting Chair McElligott called for open nominations for Board Chair and Vice Chair.

> **Mr. Ragan nominated Mr. McElligott as Chair. There were no other nominations, and Mr. McElligott was elected Chair by acclamation.**

Mr. Petit nominated Treasurer McIntire as Vice Chair. There were no other nominations, and Treasurer McIntire was elected Vice Chair by acclamation.

ADOPTION OF THE JULY 14-16, 2009, MINUTES

Mr. Masten moved to adopt the July 14-16, 2009, Board meeting minutes. Mr. Ragan seconded, and the motion carried unanimously.

ADOPTION OF THE JULY 15, 2009, *AD HOC* COMMITTEE MINUTES

Chair McElligott noted only the voting members of the Ad Hoc Committee, including himself, Ms. Schurke, and Messrs. Hill, Ragan, and Masten, could act on the motion.

Mr. Masten moved to adopt the July 15, 2009, *Ad Hoc* Committee meeting minutes. Mr. Hill seconded, and the motion carried unanimously.

ADMINISTRATIVE COMMITTEE REPORT

Executive Director Candidate Appointment

Chair McElligott said the Administrative Committee met earlier today to receive a report from the *Ad Hoc* Committee and consider the Executive Director candidate nomination. The Administrative Committee recommends appointment of Ms. Whitmarsh.

Chair McElligott moved the Board: (1) offer the position of Executive Director to Ms. Theresa Whitmarsh and, if the offer is accepted, she be appointed to the position for a term of three years, commencing October 1, 2009, at an initial annual salary of $256,000 subject to (a) confirmation by the State Finance Committee, and (b) satisfactory completion of the criminal history record check required by RCW 43.33A.025; and (2) the Board conduct a performance review of the Executive Director in six months. Mr. Masten seconded, and the motion carried unanimously.

PUBLIC COMMENT

There was no public comment.

RECOGNITION

Chair McElligott recognized Mr. Glenn Gorton for his seven years of outstanding service to the Board, and his recent tenure as Board Chair. Chair McElligott read a letter of appreciation aloud. Ms. Whitmarsh thanked Mr. Gorton for his guidance and leadership.

[Representative Santos arrived at 9:37 a.m.]

ASSET ALLOCATION DISCUSSION AND RECOMMENDATION

Mr. Bruebaker introduced Mr. Rue's asset allocation presentation, which supplies additional information requested by the Board at its July meeting. He said staff would be happy to supply any additional research, analysis, or other information the Board desires to help make its asset allocation decision. Mr. Bruebaker relayed that Mr. Rue's presentation contains two recommendations: one is based on the work the Board did in July, which is also the recommendation by Pension Consulting Alliance (PCA); and one from staff.

Mr. Rue's introduction included the reminder this is the third asset allocation study PCA has performed for the WSIB over the past five years. He noted the meeting packet contains a detailed memorandum describing the process PCA and WSIB staff had engaged in between February and July, and summarizes decisions made by the Board at its July meeting. He said his presentation would summarize the memo details. He also noted an immaterial error contained within the table on page 3 of the memorandum. A corrected copy was provided to staff and available to members if desired.

Mr. Rue reported that staff had reviewed the data from the July session and seeks to propose a slight adjustment to the Board's consensus. The essence of the adjustment is how the Board wants to handle portfolio liquidity.

Mr. Rue said data was further examined based on the policy consensus reached in July. A key part of the process is to determine how to quantitatively define risk so it can be articulated. PCA, with input from staff, had defined five risk factors to encapsulate and address Board concerns: (1) attempt to maximize the Commingled Trust Fund's (CTF's) real rate of return, (2) attempt to minimize the volatility of the CTF real rate of return, (3) attempt to minimize the volatility of the aggregated plans' employer contributions, (4) attempt to minimize the volatility of the aggregate plans' funded ratios, and (5) attempt to minimize CTF cash flow stress. Mr. Rue noted the first two concerns address return, concerns 3 and 4 address risk and cost volatility, and concern 5 addresses cash liquidity based on lessons learned during the recent market downturn. The Board voted on these factors in July, placing priority weightings on each.

The risk philosophy result stressed generation of returns, which is consistent with the 2005 and 2007 results. Members placed two-thirds of its weight on seeking the best return possible. Mr. Rue pointed out that 75% of the modeled results focus on investment return. The results showed that members care about cash flow, portfolio liquidity, and DRS concerns. He noted the cash flow stress risk factor received 12% of votes.

Mr. Rue reviewed the resulting asset allocation mix and percentage of change from the current allocation. He reported the modeling results do not result in overwhelming changes, but the reduction in private equity, tangible assets, and real estate is noteworthy; the combined change represents a 5% reduction in private market assets.

In addition to the Board consensus, Mr. Rue was asked to perform further due diligence on three alternative risk philosophies: (1) 100% weighting on maximizing returns, (2) risk and cost volatility/cash stress orientation, and (3) volatility-only orientation. The analysis of the Board consensus and volatility-only philosophies compared to the current allocation warrant further consideration. A discussion ensued on the process used in the due diligence analyses and resulting simulation comparison summary, which rates the philosophies as neutral, beneficial, or detrimental. Mr. Bruebaker stressed the analysis is based on the model. He pointed out that models are flawed and judgment must be overlaid in determining results. Mr. Rue discussed the modeling results and comparison of the volatility-only and Board consensus philosophies, noting implementation issues accompanying the volatility-only approach. He believes the Board consensus option is reasonable.

Mr. Bruebaker noted PCA's recommendation is the same as the Board's consensus. The main difference with staff's recommendation is how to handle liquidity. He said staff's recommendation is a response to the recent liquidity crisis and funds excess benefit payments based on the current contribution rate (which is lower than projected during the last asset allocation study), providing flexibility when cash is needed. It also combines Tangible Assets and Real Estate. Mr. Bruebaker said it is important to look at the direction of changes in asset allocation decision making rather than the absolute number. Staff continues to support the large commitment to private equity, with a slightly higher recommendation than the Board's consensus. He said the Board's conviction to private equity has resulted in top decile and quartile performance for the WSIB and consistent outperformance, despite short-term underperformance compared to peers. Mr. Bruebaker said there has been a lot of discussion around the 8% actuarial return assumption. He noted the Board's mandate is to maximize returns at a prudent level of risk. The WSIB understands and has achieved the 8% return target, but it will be a challenging number to obtain going forward. Mr. Bruebaker relayed the recent challenges with liquidity and said staff's recommendation would help respond to any demands going forward. Maintaining the commitment to private markets will bring more volatility, but staff believes it is in the best interest of employees, employers, and taxpayers, and will serve the state very well long-term.

Mr. Masten asked if an allocation to cash provides flexibility to staff and if there was any difference in returns between the Board's consensus and staff's recommendation. Mr. Rue said modeling suggests a 10 basis points reduction in returns using staff's recommendation, which he does not consider material. Mr. Bruebaker observed that PCA's model does not take into account the 7% of CTF defined contribution monies that can exit the portfolio at any time. Mr. Nierenberg said this point was also raised at the July meeting and suggested the Board continue to deliberate this discussion. He does have a concern with the loss to modeled performance with adding a liquidity factor. He said he supports staff's recommendation for the allocation to liquidity, but encourages staff to continue to seek niche opportunities if this allocation is approved. Mr. Kaminski supported this suggestion.

Representative Santos questioned the strengths and merits of maintaining private equity. She asked about accountability and transparency issues. Mr. Bruebaker said there is less transparency with private equity than with public equity or fixed income due to a delay in performance information with private equity. Additionally, distressed funds do not disclose companies owned for propriety reasons. Staff monitors investments through its participation on advisory committees of the limited partnerships. Mr. Masten noted there had also been very recent experiences with lack of transparency within public markets.

Chair McElligott pointed out the biggest difference between staff's recommendation and the Board's consensus is within global equity. Mr. Bruebaker said staff's primary desire is not to decrease public equity, but to put money elsewhere. Mr. Seely said he supports the modeling exercise, but places more weight upon staff's expertise. He supports the commitment to private equity and real estate, which he believes will continue to perform well over the long-term. Further, he supports having a better target for cash.

A discussion ensued on the modeled median return for both staff's proposal and the Board's consensus. Mr. Bruebaker stressed cash management needs to be a higher priority. Staff has explored with the Assistant Attorney General options available to the WSIB. Mr. Petit said he favored an allocation to cash, but questioned if it really needs to be as high as the proposed 3% allocation.

[The Board took a brief recess at 11:03 a.m. and reconvened in open session at 11:18 a.m.]
[Representative Santos was not in attendance at 11:18 a.m.]

Mr. Masten moved the Board maintain its current asset allocation. Mr. Hill seconded the motion.

Mr. Masten pointed out the Board has the flexibility to make changes in the future if deemed appropriate.

Mr. Masten called for a roll call vote. Chair McElligott seconded the motion.

Mr. Hill – Aye.
Mr. Masten – Aye.
Mr. McElligott –Aye.
Vice Chair McIntire – Aye.
Mr. Petit – Aye.
Mr. Ragan – Aye.
Ms. Schurke – Aye.
Representative Santos was not present at the time of the roll call vote. She subsequently voted aye.

The above motion carried by majority vote.

RESEARCH WORKSHOIP: COSTS AND BENEFITS OF MANAGING DOWNSIDE RISK

Mr. Lerch introduced his presentation on hedging, which is taking an action that helps to reduce risk and uncertainty under certain conditions. Like insurance, hedging has a cost. The key is to understand how, when, and why to hedge. He described different risks that can be hedged, such as investment, inflation, interest rate, liquidity, currency, liability mismatch, and counter-party.

[Representative Santos was in attendance at 11:26 a.m.]

Mr. Lerch said investment risk can be hedged through diversification/asset allocation, shorting, and use of derivatives. He described several hedging strategies, their potential uses, issues/risk involved, benefits and costs, and gave several examples and outcomes of strategies employed by other pension funds. He believes just considering hedging strategies helps to sharpen focus on risk issues.

[Ms. Schurke departed at 12:18 p.m.]
[The Board took a brief recess at 12:18 p.m. and reconvened in open session at 12:40 p.m.]

EXECUTIVE DIRECTOR'S REPORT

Ms. Whitmarsh provided her monthly report for September on board governance, investments, investment meetings, budget, public affairs, operations, and open procurements. She announced the State Actuary released a report to the Pension Funding Council on Tuesday regarding the financial condition of the state's pension system. WSIB data was included in the Actuary's report, which generated a lot of interest. Ms. Whitmarsh gave a presentation earlier this week to the Select Committee on Pension Policy (SCPP). The SCPP is expected to ask the WSIB to participate in a risk study, which she plans to discuss further with the Board as she learns more about the expectation of the SCPP. Mr. Hill, who serves on the SCPP, said Ms. Whitmarsh gave a great presentation. He suggests the WSIB be disciplined in its discussions of expectations, risk parameters, and volatility so dimensions and variabilities are understood; and avoid the desire to focus on a number.

Ms. Whitmarsh announced the WSIB would attain additional building space in October. She introduced new staff members, Mr. John Graves, asset allocation investment officer, and Mr. Sang-Hoon Kim, Information Technology Specialist 5, and announced that Ms. Teresa Eckstein, Human Resources Director, has taken a promotion at Employment Security. Ms. Whitmarsh acknowledged Ms. Eckstein's contributions over the past 5-1/2 years in establishing the WSIB as a destination employer.

AUDIT COMMITTEE REPORT

Audit Committee Charter 1.00.130 and Internal Audit Charter 1.00.190 Revisions

Mr. Petit reported the Audit Committee met on September 1 and reviewed proposed revisions to the Audit Committee Charter 1.00.130 and Internal Audit Charter 1.00.190, which reflect changes to the Internal Audit Standards, implement peer review suggestions, and add clarity around action items forwarded to the full Board.

> **Mr. Petit moved the Board adopt the Audit Committee Charter Policy 1.00.130 and Internal Audit Charter Policy 1.00.190 revisions. Vice Chair McIntire seconded and the motion passed unanimously.**

Mr. Petit said the Committee also received an external quality assurance report on the WSIB Internal Audit function, which received the highest possible rating; reviewed the quarterly Audit Recommendations Status Report; accepted the Audit Committee 2010 meeting dates; conducted a *Black Swan* scenario analysis; and received a report on Board policy compliance. One exception noted in the review was referred to the Administrative Committee; the other exception was that members participate in at least one WSIB paid education event per year.

The Committee also discussed upcoming term expiration of nonvoting Board members, Charlie Kaminski and John Magnuson. Mr. Kaminski seeks reappointment to the Board, and Mr. Magnuson announced he would not seek reappointment after his term ending December 31, 2009. Mr. Magnuson provided names of potential candidates with real estate expertise to consider as his replacement. The Committee requests that recommended candidates for the anticipated nonvoting Board member vacancy be forwarded to the Audit Committee by October 15, 2009, with interviews planned at its December meeting. The Committee may hold a special meeting in November if it receives numerous candidates.

PRIVATE MARKETS COMMITTEE REPORT

Mr. Masten reported the Private Markets Committee met on September 3, 2009, and discussed two investment recommendations, current market conditions and trends, Capital Dynamics' organizational restructure of HRJ Capital, and the 2010 meeting schedule.

Private Equity Investment Recommendations

<u>Oaktree Opportunities Fund VIII, L.P.</u>

> **Mr. Masten moved that the Board invest up to $250 million, plus fees and expenses, in Oaktree Opportunities Fund VIII, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Mr. Hill seconded the motion.**

Mr. Masten said the fund will focus on investments in under-valued public bonds and bank debt of financially distressed companies in which value can be created through management of a bankruptcy reorganization or restructuring outside of bankruptcy. The distressed debt strategy provides diversification benefits to the WSIB private equity portfolio. Oaktree is a long-time investment partner of the WSIB, and the proposed investment is consistent with the 2009 private equity annual plan approved by the Board. He said the recommendation is based, in part, on Oaktree's experience, excellent performance over a long time period, successful investment strategy, strong deal flow, and excellent fit in the WSIB private equity portfolio.

Mr. Hill asked about the anticipation of exceeding the 25% private equity allocation and how that is funded. Mr. Bruebaker said any under or over allocation goes to or comes from Public Equity. Mr. Nierenberg said this type of investment tends to cycle back invested capital quickly, which differentiates it fromother private equity investments.

The above motion carried unanimously.

Oaktree Principal Fund V, L.P.

Mr. Masten moved that the Board invest up to $150 million, plus fees and expenses, in Oaktree Principal Fund V, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Vice Chair McIntire seconded the motion.

Mr. Masten said the fund will invest globally $50 million to $200 million in equity and debt obligations of middle-market companies, combining traditional private equity and distress-for-control investing. The proposed investment is consistent with the 2009 private equity annual plan approved by the Board. He said the recommendation is based, in part, on Oaktree's experience, cohesive management team, long track record with significant realizations, differentiated investment strategy, strong proprietary deal flow, and excellent fit in the WSIB private equity portfolio.

The above motion carried unanimously.

Mr. Masten reported that Thomas Kubr of Capital Dynamics described his firm's recent restructuring of HRJ Capital, a California-based fund-of-funds manager with a particular strength in accessing Silicon Valley venture capital funds. HRJ got into trouble in 2008 when the firm made commitments to funds in excess of its available capital, and was unable to raise enough capital to cover the shortfall. In connection with the restructuring, Capital Dynamics became the new general partner for all HRJ funds, and HRJ Capital is being liquidated. Mr. Kubr disclosed to the Committee that three individuals that are connected to WSIB private equity general partners had provided subordinated debt financing to HRJ in 2008, prior to Capital Dynamics' involvement in the transaction. The subordinated debt holders reached a negotiated settlement with HRJ's senior bank lender. Capital Dynamics has offered employment to the HRJ founders, the HRJ real estate team and certain administrative and support positions.

He also shared that Gary Bruebaker forwarded the Private Equity Principles issued by Institutional Limited Partners Association, known as ILPA, to all Board members this past weekend. These Principles were developed over the past six months by the CIOs of some of the larger institutional investors whobelieve the time is right to work toward enhancing partnership governance, strengthening alignment of interests, and improving investor reporting and transparency. ILPA issued a press release on these Private Equity Principles last Tuesday and posted them to their web page to begin getting institutional investors and general partners to endorse the ILPA Private Equity Principles. These documents are consistent with the direction the WSIB has been taking for quite some time to improve the alignment of interest with our general partners. Consequently, it is Mr. Bruebaker's intent to endorse these Principles on behalf of the WSIB unless anyone would rather wait and have them discussed at a future Private Markets Committee meeting. No Board member requested to have the Principles discussed in more detail.

2010 MEETING SCHEDULE

> **Chair McElligott moved the Board accept the meeting schedule as outlined in the packet materials. Mr. Masten seconded, and the motion carried unanimously.**

QUARTERLY DISCUSSION OF MARKETS

Portfolio Discussion

Mr. Bruebaker reported on performance for the quarter ended June 30, 2009, as well as the one-, three-, five-, and ten-year. The portfolio underperformed the TUCS Universe for the quarter and one-year, and the Implementation Value Added (IVA) benchmark for the quarter, one-, and three-year period. The portfolio underperformed for the quarter by 51 basis points (bps). The allocation decisions cost 205 basis points (bps), mostly due to being underweight equities. Manager decisions by private equity partners and fixed income outperformed by 154 basis points, despite the slight underperformance by public equity managers. The portfolio is outperforming the IVA for the longer periods.

Fixed Income

Mr. Kennett reported on fixed income performance. The retirement fixed income portfolio returned 5.86% for the second quarter. Relative to the index, it was the best performing quarter on record. An overweighting to credit returned 11.05%. While financials snapped back during the quarter, the portfolio will remain underweight financials going forward. Governments also outperformed. Fixed income retirement outperformed by over 100 bps for the fiscal year. For the calendar year-to-date, returns are 14.5% for fixed income and the portfolio is outperforming by 740 bps through yesterday (9/16/09).

The Labor and Industries' (L&I) funds underperformed slightly for the quarter, but the returns were positive for the fiscal year. The annual returns for the fixed income portion of the three largest L&I funds were between 6.8 and 7.3%.

Public Equity

Mr. Paroian provided an update on the Barclays Global Investors (BGI)/BlackRock merger. At a meeting earlier this week at BGI, staff was assured the merger is going smoothly and received details on some of the merged areas. Leadership of the equity, corporate governance, and transition management teams will remain with BGI staff. The fixed income leadership will be maintained at BlackRock. No major change in personnel is anticipated, and staff will continue to track and share updates with the Board.

Mr. Paroian said performance within the equity markets roared back in the second quarter. U.S. equities were up more than 15% since year end through to the date of the Board meeting; Europe and developed international went up more than 25%; and emerging markets are up by more than 50% year-to-date, with certain markets up over 100%. He said it is difficult to assess whether such strongly positive returns can be sustained going forward. The portfolio lagged somewhat during the recent sharp bounceback. Mr. Paroian briefly discussed the managers with short-term underperformance and the fact that the portfolio is underweight financials and in emerging markets which had the largest rallies. Staff is comfortable with managers' decisions to underweight financials and was already taking measures to correct the emerging markets underweight. Mr. Paroian commented on the open procurements for emerging markets and enhanced index equity managers. Recommendations for the enhanced index equity manager search are planned for the December Public Markets Committee meeting and recommendations for the emerging markets equity manager search are planned for early in 2010.

Real Estate

Mr. Draper said that, while the real estate portfolio continues to face write downs, the ten-year net return was 10.7% as of March 31. He noted that more than 70% of existing assets are long-term partnerships and properties that continue to generate income, despite their fluctuating values over time. Within the portfolio, longer-term holdings have had much higher returns than fund holdings over the past year.

In response to Mr. Masten's question about the U.S. compared to other markets, Mr. Draper said there are differences in how markets have responded in the current environment. For example, while the U.S. and U.K. were and continue to be greatly affected, China has recovered very quickly and Brazil was far less affected to begin with.

Private Equity

Mr. Ruggels said private equity investment activity appears to be gradually picking up, and he expects the pace to increase in 2010. Based on past cycles, the period coming out of a recession is a good time to put money to work.

There are several reasons for the pickup in deal activity. Valuations have stabilized and there is better visibility into how companies are likely to perform going forward. The bid-ask spread between buyers and sellers is closing, and credit markets are improving. High yield activity has been particularly strong in 2009, with year-to-date new issuance of $95 billion, nearly double the new issuance in all of 2008. However, there are other factors that will work to constrain the pace of investment activity, including lack of bank debt financing for very large transactions, a continued difficult fundraising environment, and a considerable focus of resources on managing existing investments in a challenging environment.

Liquidity options are also improving, as the IPO window has opened for many private companies, and M&A activity is increasing, creating more opportunities to sell to strategic buyers.

He reported the private equity portfolio was down 4.4% for the first quarter of 2009, but expects improved performance in the second quarter, as valuations have increased due to the strong rebound in the public equity markets since early March.

Mr. Ruggels noted the significance of ILPA adopting the Private Equity Principles. He believes it represents a major industry change, unifying limited partners to focus on improving terms and conditions in partnership agreements, seeking better alignment of interests between LPs and GPs.

[Mr. Seely departed at 1:50 p.m.]

Private Equity
There was no oral presentation.

Real Estate
Mr. Humphrey of Courtland Partners presented an update of real estate market conditions. He said recent market changes present mixed prospects for conditions going forward. The market is still experiencing pain due to credit problems and weak industrial production, as well as continued downward pressure on valuations. Positive changes are that household net worth is rising, and household and business debt are decreasing. There is still significant single-family home foreclosure activity in California, Florida, and Nevada, and other areas that were significant drivers of economic growth over the last five years. Additionally, liquidity issues in the commercial property market need to be worked out.

Mr. Humphrey reviewed global economic conditions. He suggested some of the Asian markets should be watched for potential opportunities.

Mr. Humphrey reviewed debt compared to GDP on adjustable rate mortgages, house prices, and delinquency rates. Mr. Draper noted that performance of apartment properties is interesting currently, with "rent by necessity" properties experiencing growth while "rent by choice" or luxury properties are experiencing declining occupancy. Mr. Humphrey pointed out the WSIB's exposure to manufactured housing makes a lot of sense in this environment.

[Vice Chair McIntire and Mr. Nierenberg departed at 2:11 p.m.]
[Messrs. Kaminski and Magnuson departed at 2:17 p.m.]

COST EFFECTIVENESS MEASUREMENT ANNUAL REPORT
Mr. Heale described Cost Effectiveness Measurement's (CEM's) survey of 162 funds, with a focus on a WSIB peer group with a median fund size of $44.5 billion.

CEM's analysis considers the fund's impact of policy asset mix decision (policy return), implementation decisions (value added), risk in implementation style (implementation risk), whether costs are reasonable, net implementation value added versus excess cost (cost effectiveness), and the amount of risk created by a mismatch of assets and liabilities.

The WSIB's policy return and value added combined total return of 6.7% placed in the top quartile of the U.S. universe. The return is higher due to the WSIB's higher weighting in private equity and real estate. Mr. Heale reviewed the change in WSIB's asset mix compared to peers and the U.S. universe over the past five years. He noted WSIB's five-year value added of 2.6% ranked highest in the U.S. universe. WSIB's implementation risk was slightly below the U.S. median.

Mr. Heale reported CEM implemented changes to improve its private equity comparison in this report. The benchmark costs analysis suggests WSIB's fund was lower cost by 14.3 bps. This can be attributed to implementation style, avoiding fund-of-funds, and internal management of fixed income. Although external management costs more, the WSIB's implementation style cost was less than peers. Overall, the WSIB paid less and had lower cost implementation style compared to peers, with an excess cost savings of $84 million.

Mr. Heale described CEM's neutral asset mix concept used to evaluate asset-liability mismatch risk. The WSIB's risk for five years ended 2008 was 17.2%. The mismatch implies that one year in 20 the fund could lose or gain 28.3% relative to its current funded status.

Mr. Heale summarized the WSIB's five-year policy return was 4.2%, above the U.S. and peer medians of 2.2 and 2.7% respectively. The value added was 2.6%, above the U.S. and peer medians of 0.1% and 0.5%. The five-year implementation risk was 1.4%, close the 1.5% U.S. median and above the peer median of 1.0%. WSIB's actual cost of 71.7 bps was below its benchmark cost of 86.1 bps, which suggests the fund is low cost. This is attributed to paying less for similar mandates and implementation style. The five-year performance falls within the positive value added, low cost quadrant within the survey chart. Finally, WSIB's five-year asset-liability mismatch risk of 17.2% was below the U.S. and peer medians of 18.2 and 18.3% respectively.

Ms. Whitmarsh commented on the value of the Cost Effectiveness Measurement analysis. Representative Santos said it would be well worth the effort to more broadly communicate this very stellar report.

OTHER ITEMS

Chair McElligott noted the Assistant Attorney General had nothing to report at the Administrative Committee meeting.

There was no further business to come before the Board, and the meeting adjourned at 2:39 p.m.

Patrick McElligott
Chair

ATTEST

Theresa J. Whitmarsh
Executive Director