

**WASHINGTON STATE INVESTMENT BOARD**  
**Board Meeting Minutes**  
**June 17, 2010**

The Washington State Investment Board met in open session at 9:35 a.m. in the boardroom at 2100 Evergreen Park Drive SW, Olympia, Washington.

Present: Pat McElligott, Chair  
Treasurer Jim McIntire, Vice Chair (via teleconference)  
Senator Lisa Brown (via teleconference)  
Steve Hill  
William Longbrake  
George Masten  
Richard Muhlebach  
Bob Nakahara (via teleconference)  
David Nierenberg (via teleconference)  
Wolfgang Opitz  
Judi Owens  
Mason Petit  
Representative Sharon Tomiko Santos  
Judy Schurke  
Jeff Seely

Absent: Mike Ragan (due to teleconference equipment difficulties)

Also Present: Theresa Whitmarsh, Executive Director  
Gary Bruebaker, Chief Investment Officer  
Victor Moore, Chief Operating Officer  
Liz Mendizabal, Public Affairs Director  
Steve Lerch, Research Director  
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  
Chris Green, Risk Analyst  
Kristi Haines, Executive Assistant

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

Chair McElligott called the meeting to order and took roll call.

Treasurer McIntire announced that due to other commitments, he could not attend the meeting in person today. He intends to participate by phone but, in the event that phone service is disrupted or he is otherwise unable to participate in some part of the meeting, he designates Assistant State Treasurer Wolfgang Opitz to act in his place during the time that he is unavailable.

## **ADOPTION OF THE MAY 20, 2010, MINUTES**

**Mr. Masten moved to adopt the May 20, 2010, Board meeting minutes.  
Ms. Schurke seconded, and the motion carried unanimously.**

### **PUBLIC COMMENT**

There was no public comment.

### **PRIVATE MARKETS COMMITTEE REPORT – PRIVATE EQUITY CONSULTANT (CATEGORY A) FINALIST SELECTION**

**Mr. Masten moved the Board select Hamilton Lane as the apparently successful offeror for the Category A private equity consultant contract, subject to final negotiation of terms and conditions. Representative Santos seconded the motion.**

Mr. Masten said the current contract to provide private equity consulting and back office services to the WSIB expires on December 31, 2010. On March 1, 2010, the WSIB issued a Request for Proposals (RFP) seeking bids from qualified firms to perform private equity consulting (Category A) and back office services (Category B). The RFP was structured with the goal of creating two separate contracts for the services rendered. Thirteen firms submitted proposals for Category A services. After extensive evaluation on the part of staff, the Committee met with the three finalists. The Committee considered each firm's organizational structure, stability, staffing, private equity market knowledge, research capability, portfolio strategy, commitment pacing capabilities, deal sourcing, due diligence processes, and investment recommendation capabilities and voted to recommend the Board select Hamilton Lane as the private equity consultant. Mr. Masten said the motion involves Category A services only; Category B will be dealt with by the Executive Director, not the Board.

**The above motion passed unanimously.**

### **AUDIT COMMITTEE REPORT**

#### **Fiscal Year 2011 Internal Audit Plan**

Mr. Hill reported the Audit Committee met on June 1, 2010, and reviewed the independence of Peterson Sullivan, the Board's Financial Statement Auditors. The Committee also heard from the State Auditor's Office (SAO) that they will no longer be auditing state agencies annually, as they have in the past. Due to significant budget cuts, the SAO is developing a new approach where they will select statewide audit issues, and perform work across those agencies most impacted. As the SAO plan is not yet complete, the Committee directed staff to bring back options for the Committee to consider regarding how the Board may wish to cover the reduction in audit coverage going forward.

The Committee reviewed the Internal Audit plan for Fiscal Year 2011.

**Mr. Hill moved the Board adopt the Fiscal Year 2011 Internal Audit Plan.  
Mr. Masten seconded, and the motion carried unanimously.**

The Committee reviewed management action on prior audit recommendations, noting four of the seven outstanding recommendations were resolved this past quarter. The Committee

commended staff on the work they had done, particularly with JPMorgan. They also directed staff to create an investment contact and referral policy and process to bring back for review next quarter. There was quite a bit of discussion and examples from peer pension funds were reviewed.

#### **Corporate Governance Planning – International Proxy Voting Follow-up**

The Committee reviewed material prepared by staff on the cost and issues of voting international proxies in-house. The Committee directed staff to develop new language for the WSIB's proxy voting policy and a process to allow the Corporate Governance program to vote our international shares. Current Board policy only allows U.S. equity proxies to be voted in-house. If the Board approves the recommended policy changes, Glass Lewis will assist staff in writing international proxy voting guidelines for consideration by the Audit Committee and Board in December 2010.

[Treasurer McIntire was not in attendance via teleconference at 9:43 a.m.]

**Mr. Hill moved the Board approve the changes to the Proxy Voting Policy 2.05.200 and approve the proposed process. Mr. Petit seconded, and the motion carried unanimously.**

[Treasurer McIntire was back in attendance via teleconference at 9:45 a.m.]

Mr. Hill said the Committee discussed the Internal Auditor Director's Annual Evaluation in executive session.

#### **ADMINISTRATIVE COMMITTEE REPORT**

##### **Six-Year Resource Plan**

Chair McElligott said staff presented the six-year resource plan at today's Administrative Committee meeting.

##### **2011-2013 Biennial Budget Request**

Ms. Whitmarsh summarized the six-year plan and budget presentations given earlier to the Administrative Committee. She said 11 FTEs are planned over the next 6 years, primarily in investments and risk management, with some back office FTEs to support the growth within the investment program. The biennial budget for 2011-2013 represents a 5.5 percent increase, primarily due to the 3 FTEs requested within the upcoming biennium. Staff has built a placeholder into the budget for Investment Officer compensation, pending further discussion by the Board on the current salary survey and decision whether to adopt new ranges. The placeholder needed to be in the biennial budget proposal, but can be pulled out at any time.

Chair McElligott said, although staff has efficiently run both the appropriated and non-appropriated budget, that does not mean it stops looking for efficiencies. Mr. Petit stressed that staff use caution in considering changes within the middle and back office areas as often work done in those areas is very valuable and we should not undermine our efforts. Mr. Longbrake said it is important to resource to manage risk appropriately to get good returns. He likes the focus on performance. He noted the Administrative Committee's discussion of examining best practices and suggested staff research peers within the cost survey that showed slightly better results than WSIB.

**Chair McElligott moved the Board approve the proposed 2011-2013 operating biennial budget. Mr. Petit seconded, and the motion carried unanimously.**

## **Board Self-Evaluation Process**

**Chair McElligott moved the Board continue the practice it used last year for its self-evaluation process at the July meeting, including review of meeting attendance, education, and how the Board spends its time. The process will also include questions on Board best practices. Mr. Petit seconded, and the motion carried unanimously.**

## **EXECUTIVE DIRECTOR'S REPORT**

Ms. Whitmarsh provided her monthly report for June on Board governance, investments, public affairs, staffing, operations, and open and upcoming procurements. She announced the Emerging Markets Fund of Funds (EMFOF) program within real assets made a commitment of \$25 million to Gateway Real Estate Fund III. This fund is focused on property investments in China, with a lesser focus on other countries of Southeast Asia. The fund's strategy is opportunistic as opposed to emphasizing a particular property type. EMFOF made a \$50 million commitment to Gateway's second fund in May 2007. A smaller commitment was made to Fund III due to the relatively short timeframe since their previous fund. Ms. Whitmarsh introduced Patty Davis, newly appointed to the Administrative Assistant 5 position supporting Mr. Moore within Operations, as well as the Audit Committee. Ms. Matsumoto, the current Compliance Officer, was recently appointed to an Investment Officer position within Private Equity. Ms. Whitmarsh said staff is in the final stages of selecting a risk system vendor—an announcement is expected within a few weeks. She noted the global equity products procurements just initiated, which continues through May 2011. The quiet period is in effect during this time period; any inquiries received by members should be directed to the Contracts office.

[The Board took a brief recess at 10:58 a.m., and reconvened in open session at 11:10 a.m.]

## **COMMINGLED TRUST FUND CONCENTRATION RISK EDUCATION SESSION**

Mr. Green introduced the Commingled Trust Fund (CTF) concentration risk presentation. He noted the demonstration data is as of March 31, 2010.

Mr. Green described concentration risk as a measure of how portfolio holdings break down with respect to some classification scheme, such as by geographic location, industry, or economic classification. He said it is also important to compute the concentrations of any benchmarks or indices used by the Board and by staff to provide context for the concentrations of the portfolio.

Mr. Green explained how staff's concentration analysis fit into the risk management framework and risk categories used by staff's Enterprise Risk Management team, as well as Rick Funston's Enterprise Survival and "Thrival"<sup>TM</sup> Skills framework.

In examining the data, Mr. Green suggested the Board consider the following questions:

- Are the CTF level concentrations the result of a CTF-wide strategy, or do they result from each asset class implementing its own strategy?
- What should the geographic and industry concentrations of the CTF look like (say 5 years from now)?
- Are new investment mandates having their desired effects?

Prior to the data warehouse, concentration analysis was done by gathering holdings data from numerous hard copy reports. This required a lot of staff time and work to develop an analysis, so the analysis was often stale by the time it was finished. The data warehouse integrates and automates data from a variety of sources, and staff has put several checks in place to ensure the validity of the data. This allows for more frequent monitoring and reporting. In response to Chair McElligott's question about staff's use of the data warehouse, Mr. Bruebaker said staff has practical use of the system currently although data scrubbing is still underway. Mr. Green said the data warehouse is a flexible tool used to get information in a variety of ways and views. He described some of the challenges in scrubbing data, such as foreign language translations.

Mr. Green described the concept of a reference portfolio, which provides context for the concentration of a portfolio. Similar to, but not as formal as a benchmark, a reference portfolio is more of a "you could look like this" construct, rather than a "you should look like this" construct. In order for the comparisons to be meaningful, the reference portfolio needs to be classified according to the same classification scheme as your portfolio. Two reference portfolios were constructed for this risk analysis. The first one is based on the CTF's passive benchmark; the second is based on the CTF's implementation value added benchmark.

Mr. Green presented the results of geography and industry concentration analysis of the CTF and two reference portfolios. He explained how staff defined and categorized geography classifications. Industry classifications were based on the Industry Classification Benchmark (ICB) classification standard.

[Mr. Seely arrived at 10:29 a.m.]

[Treasurer McIntire was not in attendance via teleconference at 10:30 a.m.]

Mr. Green confirmed that geographic and industry schemes can be separated or filtered to do specific examinations. He said that other more detailed analyses can be obtained from the data warehouse.

In response to Ms. Owens' question, Mr. Green said the demonstration data was imported directly from the data warehouse via computer code, to eliminate manual entry. He said it is hard to define categories and classifications within diverse portfolios such as the WSIB's, and it is important to analyze the data in different ways. Currently, staff examines concentration analyses on a monthly basis.

[Senator Brown was no longer in attendance via teleconference at 10:45 a.m.]

Mr. Green said staff continues to scrub data so that it is more accurate and timely. It is also developing stress tests for the concentrations, and adding detail.

He summarized that concentration measures how much of a portfolio is invested in each category of a given classification scheme. The data warehouse makes reporting on CTF concentrations easier, more accurate, and more timely; enhances risk analysis discussion at the total portfolio level; and is the first deliverable of new quantitative risk program.

Mr. Petit asked about future uses for the data warehouse. Mr. Bruebaker said it will continue to be used for annual planning within each asset class. He noted moves can be made faster within some asset classes than others. Any concentration concerns would be raised during planning sessions or

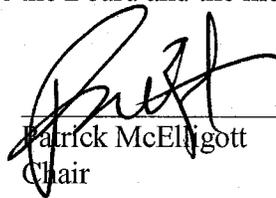
brought to the Committee for discussion. There have been no surprises in the analyses thus far, but data is more useful and timely than past practices. Ms. Whitmarsh said data analyses allow for examination of how asset allocation decisions can impact the portfolio and can assist in making cross-portfolio decisions.

Mr. Nierenberg said the challenge is to be ready to use the data to make and implement decisions, capitalize on anomalies, and find ways to be more agile. Mr. Seely added the data could give us some foresight into what could happen to the portfolio, based on how past crises have occurred.

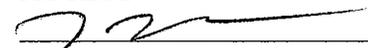
Mr. Longbrake said a useful purpose would be to integrate the data with research for topics such as inflation. He also noted that reference portfolios composition could be troublesome and classification schemes are critical. Mr. Green described how staff developed and continually reviews the schemes; he welcomed member feedback, as the schemes are still being fine-tuned.

**OTHER ITEMS**

There was no further business to come before the Board and the meeting adjourned at 11:06 a.m.

  
Patrick McElligott  
Chair

ATTEST

  
Theresa J. Whitmarsh  
Executive Director