WASHINGTON STATE INVESTMENT BOARD
Board Meeting Minutes
November 15, 2012

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

Present:	Treasurer Jim McIntire, Chair Mike Ragan, Vice Chair Senator Lisa Brown (teleconferenced) Steve Hill Bill Longbrake (teleconferenced) George Masten Patrick McElligott Richard Muhlebach Bob Nakahara David Nierenberg (teleconferenced) Judi Owens Judy Schurke Jeff Seely (teleconferenced)
Absent:	Representative Sharon Tomiko Santos Natasha Williams
Also Present:	Theresa Whitmarsh, Executive Director Gary Bruebaker, Chief Investment Officer Victor Moore, Chief Operating Officer Liz Mendizabal, Institutional Relations Director Steve Draper, Senior Investment Officer – Real Estate Bill Kennett, Senior Investment Officer – Fixed Income Allyson Tucker, Senior Investment Officer – Risk Management and Asset Allocation Tom Ruggels, Senior Investment Officer – Private Equity John Graves, Assistant Senior Investment Officer – Tangible Assets Kristi Haines, Executive Assistant Steve Dietrich, Attorney General's Office Jody MacIntosh, CEM Benchmarking Matt Smith, State Actuary's Office Tara Blackburn, Hamilton Lane Natalie Dew, Hamilton Lane

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

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

ADOPTION OF THE SEPTEMBER 20, 2012, BOARD MEETING MINUTES

Ms. Owens moved to adopt the September 20, 2012, Board meeting minutes. Mr. Ragan seconded, and the motion carried unanimously.

PUBLIC COMMENT

There was no public comment.

EXECUTIVE DIRECTOR'S REPORT

Ms. Whitmarsh announced the Audit, Public Markets, Private Markets, and Board would meet in December. She relayed the University of Washington's request for a constitutional amendment failed in the November election, so the WSIB will not be taking on that operating fund. Ms. Whitmarsh reported on small but notable successes in the corporate governance efforts of the WSIB to be viewed as a reasoned and respected voice, with two major companies seeking WSIB's opinion on recent governance matters. The WSIB was contacted by Microsoft, regarding a lawsuit being supported by other institutional investors; Caterpillar, responding as to whether they have business operations in Sudan; and BlackRock, requesting the WSIB sign-on to a letter to Congress regarding the fiscal cliff, which the WSIB declined.

Ms. Whitmarsh reported on staff LEAN projects to improve travel processes within the agency, and another effort that resulted in an agreement tracking system that keeps all contract information in one place. Ms. Whitmarsh introduced Jeff Utterback, new Investment Officer-Real Estate. She reported that job offers to fill the two positions in Public Equity and one in Tangible Assets had been accepted by candidates, who will join the WSIB over the next few months.

[Mr. Seely joined the meeting via teleconference at 9:40 a.m.]

PRIVATE MARKETS COMMITTEE REPORT

Mr. Masten reported the Private Markets Committee met on October 18 and November 1, to consider three private equity investment recommendations and one tangible assets investment recommendation.

RK Mine Finance (Master) Fund II, L.P.

Mr. Masten moved that the Board invest up to $150 million, plus fees and expenses, in RK Mine Finance (Master) Fund II, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Mr. McElligott seconded the motion.

Mr. Masten said the fund is sponsored by the Red Kite Group, one of the largest metals and mining investment managers in the world, and will invest in low-cost, lower-risk mining projects that are at or near production in developed countries, primarily Canada, the U.S., and Australia. The investments will consist of senior completion loans enabling the target mines to commence production, in addition to off take agreements that commercialize the raw material. He said the recommendation is based, in part, on the firm's experienced team; lower-risk,

income-driven investment approach, competitive advantages; insight into mine productivity; extensive network; past performance; and risk-focused investment process and independent risk team.

The above motion carried unanimously.

First Reserve Fund XIII, L.P.

Mr. Masten moved that the Board invest up to $400 million, plus fees and expenses, in First Reserve Fund XIII, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Mr. Ragan seconded the motion.

Mr. Masten said the fund, with a target size of $6 billion, will make both minority and buyout investments across multiple sub-sectors and geographies within the energy industry. The WSIB has invested in five previous First Reserve funds since 1998. He said the recommendation is based, in part, on the firm's diversified approach to energy investing, substantial experience and expertise within the energy industry, the strong historical performance of earlier funds, and the fund's attractive fit in the WSIB's private equity portfolio.

The above motion carried unanimously.

TowerBrook Investors IV, L.P.

Mr. Masten moved that the Board invest up to $300 million, plus fees and expenses, in TowerBrook Investors IV, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Mr. Ragan seconded the motion.

Mr. Masten said TowerBrook Investors IV, with a target size of $3 billion, will be a transatlantic control-oriented fund focusing on opportunistic, middle-market transactions characterized by complexity. If approved, TowerBrook would be a new general partner relationship for the WSIB. He said the recommendation is based, in part, on the fund's outstanding performance, successful strategy, experienced team, and attractive fit in the WSIB's private equity portfolio.

The above motion carried unanimously.

Riverside Capital Appreciation Fund VI, L.P.

Mr. Masten moved that the Board invest up to $150 million, plus fees and expenses, in Riverside Capital Appreciation Fund VI, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Mr. Ragan seconded the motion.

Mr. Masten said this will be a $1 billion target size buyout fund focused on the small end of the North American middle market. If approved, Riverside would be a new general partner relationship for the WSIB. He said the recommendation is based, in part, on the fund's institutionalized approach, large experienced team, excellent performance, differentiated sourcing model, and attractive fit in the WSIB's private equity portfolio.

The above motion carried unanimously.

Mr. Longbrake suggested that staff plan for an education session on energy in the coming year. Ms. Whitmarsh confirmed that staff has the topic scheduled for presentation.

PUBLIC MARKETS COMMITTEE REPORT

Ms. Owens reported the Public Markets Committee met on November 6, to consider the finalist recommendation for the industrial insurance investment consultant and revisions to four investment policies. The Committee also participated in an education session on public equity investing.

Industrial Insurance Investment Consultant Selection

The contract for the Board's industrial insurance investment consultant expires at the end of 2012. Accordingly, a Request for Qualifications and Quotations (RFQQ) was issued during the summer. The incumbent firm, Conning Asset Management, was the only respondent. Conning has worked with the WSIB and Labor and Industries (L&I) for over 20 years. Over that time, Conning has consistently demonstrated its understanding of the complexities of insurance investing and has served the WSIB and L&I well. Based on Conning's response to the RFQQ, staff's satisfaction with the quality of the firm's work, and with the concurrence of L&I, the Public Markets Committee recommends that the Board retain Conning as the L&I industrial insurance investment consultant for a 5-year period, with a possible 5-year extension, starting January 1, 2013.

Ms. Owens moved that the Board select Conning Asset Management as the Industrial Insurance Investment Consultant for the WSIB, subject to final negotiation of terms, conditions, and fees. Mr. Ragan seconded the motion.

Ms. Schurke noted she provided comment on Conning at the September Board meeting.

The above carried unanimously.

Investment Policy Revisions

The Public Markets Committee recommends revisions to the Fixed Income – Retirement Funds Policy 2.10.200; Bond Market Fund Policy 2.14.200; Labor and Industries' Insurance Funds Policy 2.20.100; and Permanent Funds Policy 2.25.100.

The revisions to all four policies contain language to clarify what constitutes permissible fixed income investments. The Fixed Income – Retirement Funds policy revisions also address liquidity concerns by providing the ability to suspend the

policy's sector ranges for fixed income investments if liquidity in the public markets is impaired. Without the revisions, during a liquidity crisis, there could be forced sales of credit securities to fund capital calls from private market investments or to pay monthly benefits when there are more liquid securities available to sell. The policy revisions to the Fixed Income – Retirement Funds policy also allow a higher credit allocation, which might allow a higher coupon return at a time of very low interest rates.

In addition, the Permanent Funds policy is being revised to reflect the Russell 3000 as the benchmark for the equity strategies implemented in June 2012 as a result of the Permanent Funds asset allocation study.

> **Ms. Owens moved that the Board approve the proposed revisions to policies 2.10.200, 2.14.200, 2.20.100, and 2.25.100. Mr. Ragan seconded, and the motion carried unanimously.**

ADMINISTRATIVE COMMITTEE REPORT
Chair McIntire reported the Administrative Committee met earlier this morning.

Non-Voting Board Member Renewal

> **Chair McIntire moved that the Board reappoint both Bill Longbrake and Richard Muhlebach as non-voting Board members for their second three-year terms beginning January 1, 2013, until December 31, 2015. Ms. Owens seconded, and the motion carried unanimously.**

Chair McIntire said the Administrative Committee reviewed the 2013 Board Education List recommended by staff. This list will be presented to the Board in December for final approval.

The Administrative Committee also received the quarterly budget report. The appropriated budget has a projected balance of $888,000 (5.9 percent savings), primarily due to Investment Officer vacancies and less travel, while the non-appropriated budget has a projected balance of $45.2 million (13.3 percent savings). This was associated with lower asset growth due to market conditions, lower management fees, and slower development of Tangible Assets and the Innovation Portfolio.

Assistant Attorney General's Report
There was nothing to report.

COST EFFECTIVENESS MEASUREMENT ANNUAL REPORT
Ms. MacIntosh introduced the 2011 cost effectiveness survey, which compares the WSIB against a database of U.S. pension funds, and a custom peer group. The peer group is comprised of 19 sponsors with a median size of $48 billion, compared to the WSIB's fund size of $59 billion. The survey measures and compares policy return, value added, costs, cost effectiveness, and risk.

The survey shows the WSIB had a total five calendar year return of 2.6 percent, close to the U.S. median of 2.7 percent and slightly above the peer median of 2.4 percent. The WSIB has experienced strong results over the 5-year period; only 2009 showed a return below peers. The policy return, which compares the impact of policy mix decisions, shows the WSIB with a 2 percent return slightly below the U.S. median. Ms. MacIntosh said the two best performing asset classes over the 5-year period were long bonds and TIPS. Equities had the worst performance. The WSIB results were under the U.S. median primarily due to lower weighting in fixed income, but were offset by a higher weighting in private equity.

Value added is the component of total return from active management. The WSIB's gross value added was 0.6 percent, above the U.S. average. There was positive value added in all asset classes except real assets over the 5-year period.

The WSIB's 2011 asset management costs were $380.2 million or 64.6 basis points (bps). Operating costs include investment management fees, oversight, and custodial and other costs, with investment management fees making up the bulk of costs. The WSIB increased its investments in higher cost asset classes between 2007 and 2011. Ms. MacIntosh noted that CEM changed its methodology in 2009 for calculating private equity costs. She demonstrated the cost trend over the past 5-years with and without the methodology change, which shows that WSIB costs have remained relatively stable.

The benchmark cost analysis is an estimate of what costs would be given WSIB's actual asset mix and the median costs that peers pay for similar services. It represents the cost peers would incur with WSIB's asset mix. The WSIB's total cost of 64.6 bps was below the fund's benchmark cost of 80.1 bps, resulting in a cost savings of 15.5 bps. The savings were primarily due to WSIB's lower cost implementation style and paying less than peers for similar mandates. Implementation style includes external versus internal or passive management. The WSIB's external investment management costs saved 7.3 bps, and differences in oversight, custodial, and other costs saved 0.6 bps.

The WSIB's cost effectiveness comparison for 2011 showed the WSIB had net value added of 0.1 percent and a cost savings of 16 bps.

The WSIB's asset risk was 14.5 percent above the U.S. median of 10.1 percent. This is due to a lower allocation to fixed income and higher allocation to private equity.

In response to Mr. Longbrake's question, Mr. Moore said he believes the recent change in the custodian will lower fees. Ms. Owens asked for an explanation of the 2009 methodology change in how private equity costs are calculated.
Ms. MacIntosh said prior to 2009 there was a huge variance in how funds provided their fees—some provided net fees while others submitted gross fees. Starting in 2009 funds were asked to provide their contractual base fees, which is not ideal because they do not reflect what is actually paid. CEM is doing a study with global leaders next year, including the WSIB, to try to find a better method in collecting fees to run comparisons. In response to Mr. Seely's question, Ms. MacIntosh said that funds with more cost effectiveness than WSIB had a higher value add from private equity, real estate, and fixed income.

[The Board recessed at 10:14 a.m., and reconvened in open session at 10:31 a.m.]

STATE ACTUARY UPDATE

Mr. Smith reported the Legislature adopted new economic assumptions in 2ESB 6378 2012, which lowers the investment return from 8 to 7.9 percent, effective July 1, 2013. The bill phases in additional lowered assumptions of 7.8 percent in the 2015-2017 biennium, and 7.7 percent in the 2017-2019 biennium. This is part of the pension reform bill, which also changed early retirement benefits for new hires in the Teachers' Retirement System (TRS), Public Employees' Retirement System (PERS), and School Employees' Retirement System. Overall, Mr. Smith said most state systems are also lowering return assumptions. The inflation and salary increase numbers are also changing and lowering. He said the WSIB capital market assumptions and return assumption are consistent.

As of June 30, 2011, only two Washington State public pension plans are off-track with their long-term financing plan: PERS 1 had unfunded liabilities of $3.7 billion and TRS1 had unfunded liabilities of $1.8 billion. These plans have been closed to new members since October 1977. All other state plans are over 100 percent and on track with their financing plan. He said the figures include all legislative changes through the 2012 session, except new benefit changes for new hires that are effective in 2013. The state plans to address the unfunded liability by requiring additional contributions from employers only and phasing in higher Plan 1 unfunded liability contributions under a new method adopted in 2009. The expected amortization dates are 2027 for PERS 1 and 2026 for TRS 1.

Mr. Smith reported on the funded status of the Guaranteed Education Tuition (GET) program at June 30, 2012. He reviewed historical funded status, and tuition setting authority. He said the fund is 79 percent funded, with $2.9 billion in present value of obligations compared to $2.3 billion in market value of assets. Differential tuition, which is currently suspended by the Legislature, would impact these numbers. Tuition growth variables impact the funded status more than the assumed investment return. When state funding for higher education drops, the only thing available to replace it is an increase in tuition paid by students. The latest recession has resulted in double-digit tuition growth which stresses the program and decreased the funded status. In 2011, the GET Committee adopted a 30-year recovery plan to return the program to at least 100 percent funded status. Mr. Smith reviewed key assumptions and asset allocation. The GET fund is invested separately and has its own asset allocation. The assumed rate of return is 5.98 percent per year. Its target allocation is 60 percent global equities, 20 percent fixed income, and 20 percent TIPS. The assumed tuition growth reflects double digit growth for next 3 school years, then drop off a bit as the actuary does not believe double-digit tuition growth can continue as students will not be able to afford college and state funding is approaching a bottom. Chair McIntire said the question is "what is the bottom for state funding?" Board members discussed the percentage of in-state versus out-of-state students, and the shift in the proportion of international students.

Mr. Smith reported that the Governmental Accounting Standards Board (GASB) issued two new accounting standards in June 2012, statements 67 and 68. Statement 67 involves pension plans, and Statement 68 involves employer

reporting. In response to Mr. McElligott's question as to whether using GASB standards is optional, Chair McIntire said that, with respect to debt and full disclosure, Washington State would continue to report using both the actuarial valuation for pension funding and GASB for pension funding. Mr. Smith said there is no requirement to fund the plans according to these accounting rules, but accounting numbers should be reported under these standards. He said there is time to implement the plan changes over the next two reporting cycles, and the employer reporting begins in 3 years. He described the changes in who is required to report; what is required to be reported, how, and where; and the impact to balance sheets. He said PERS 1 and TRS 1 may be impacted by the discount rate changes. An interagency project team is examining the new accounting standards further.

Mr. Smith reported on Moody's proposed adjustments to pension reporting. He described the proposed methodology and expected outcomes. Similar adjustments would be made to affect annual contribution requirements and use a common amortization period of any unfunded liability. He said Moody's purpose is to improve the comparability and transparency of pension information across governments enhancing their approach to rating state and local government debt. Mr. Smith said Moody's is currently reviewing stakeholder comments, and he believes, if adopted, it will begin late 2012 or early 2013. He believes communications and explaining the multiple sets of measurements will be challenging.

Chair McIntire said he is very concerned with Moody's proposed adjustments. The Treasurer's Association objected strenuously to the changes at their annual meeting and the Treasurer has sent a pointed letter to the CEO of Moody's. He said it is confusing, could impact funding ratios, and the differences in measurements are difficult to explain. It is unclear why Moody's is pursuing this. A discussion ensued on whether any estimates have been run using Moody's proposed approach; impacts to discount rates and market values; its similarity to the European model, which inhibits investment strategy; what options are available to use other rating sources; and the affect to defined benefit plans. Members agree that communications to stakeholders should be well thought-out if the adjustments are implemented.

Mr. Smith reported on project work coordinated between the Office of the State Actuary and WSIB, including an analysis of "pay/go" (pay-as-you-go) risks and how asset allocation can impact it, and examining supplemental retirement plans in higher education.

AUDIT COMMITTEE REPORT

Mr. Hill reported the Audit Committee met September 20 to review the Audit Recommendations Status Report, Innovation Portfolio Audit Report, Performance Measures Dashboard, Annual Audit Plan Status, Public Pension Fund Frauds Review, Audit Service Provider Pool, and the Investment Referrals Quarterly Report.

For the investment referrals quarterly report, five new investment referrals were received this quarter. One was referred to the open RFQQ for the Enterprise Risk Management Risk Consulting and Investment Risk Measurement Services Pool and the remaining four continue to be evaluated by the investment team. For the Audit

Recommendations Status Report, a follow-up information technology security review was completed by Intrinium and discussed with members in executive session. All audit issues noted have been resolved. The audit recommendation regarding travel expenses paid by outside sources was resolved in September. This process will be included in the Board's annual Conflict of Interest Policy Review, and those external audit results will be reported to the Audit Committee next month. For the Audit Service Provider Pool, five firms met the qualifications and have been placed in the pool. Any audit service projects will require approval by the Audit Committee and Board.

Quarterly Commingled Trust Fund (CTF) Board Risk Report
The draft CTF Board Risk Report was discussed with the Audit Committee in executive session at its September meeting and will be presented quarterly to the Board starting in December.

CONFLICT OF INTEREST/ETHICS, QUIET PERIOD, AND OPEN PUBLIC MEETINGS ACT TRAINING
Mr. Dietrich provided the mandatory annual Board member training on ethics issues, including: use of state resources; gifts, meals, and travel expenses; use of confidential information; procurement quiet periods; pay-to-play/campaign contributions; insider trading; personal investments; and the open public meetings act. He noted the Audit Committee will consider an update to the Conflict of Interest Policy next month which will require certification of member training.

[The Board recessed at 12:20 p.m., and reconvened in open session at 12:48 p.m.]
[Ms. Schurke left the meeting at 12:20 p.m.]
[Mr. Seely left the meeting at 12:20 p.m.]

QUARTERLY DISCUSSION OF MARKETS
Portfolio Discussion
Mr. Bruebaker reported the CTF was up 4.25 percent for the quarter ended September 30, and up 13.29 percent for the year. The since inception return for the CTF is 8.54 percent as of quarter end. He said U.S. debt, the European crisis, and the fiscal cliff remain concerns.

The implementation value showed outperformance for the quarter and the year. The allocation decision hurt by 4 bps due to being overweight private equities; the manager decision assisted by fixed income outperforming by 23 bps, real estate outperforming by 46 bps, and private equity outperforming by 100 bps.

Mr. Bruebaker said the portfolio is positioned well for the long-term, but will be affected in the short-term as private markets catch-up. Public equities were up 21 percent for the year, while private equity was up only 8.6 percent. He said the WSIB's 10-year performance is top decile compared to other large public funds.

Fixed Income
Mr. Kennett provided the Fixed Income portfolio for the quarter ended September 30. He said the portfolio outperformed by 111 bps. The return was 3.11 percent, compared to the Barclays Universal Index return of 2.0 percent. Government securities and credit outperformed by 3 bps and 103 bps, respectively. The non-dollar bonds added to returns. The portfolio was overweight credit which

was the best performing sector. The retirement fund fixed income is outperforming for all reported time periods.

L&I's fixed income returns were very close to those of their respective Comparable Market Indices (CMIs). The structural issues with the CMIs played a role. In addition, the underweight and underperformance of financials hurt performance. Finance was the best performing sub-sector of the CMIs.

The Accident Fund TIPS and the Pension Reserve Fund TIPS both outperformed the Barclays TIPS index by 2 and 11 bps. The Medical Aid Fund TIPS underperformed by 2 bps.

During the quarter, the intermediate credit Bond Fund outperformed by 8 basis points due to outperformance by industrial, utility, and non-corporate sectors. The fund is outperforming for the fiscal year-to-date but underperforming for the calendar year-to-date.

Mr. Kennett said, for the retirement portfolio, potential future risks include defaults and an appreciating dollar. He commented on the European crisis, stating the Eurozone has entered a recession and nothing is resolved, but the Euro still exists.

In response to Mr. Hill's question on GIC purchases, Mr. Kennett said staff has been in contact with Principal, but the terms are not acceptable to them at this point.

Public Equity

Ms. Tucker reported on the Public Equity portfolio for the quarter ended September 30. She said, compared to its benchmark, the public equity program returned 6.77 versus 6.93 percent for the quarter, and 21.13 versus 21.49 percent for the 1-year period. It outperformed for the 3-year period.

The global equity and non-U.S. managers underperformed for the quarter, but all but one global and one non-U.S. managers outperformed for the 1-year period. Two of the emerging markets managers and the U.S. passive manager outperformed for the quarter, and the emerging markets managers as a group and the U.S. passive manager also exceeded the benchmark for the 1-year period.

Ms. Tucker said that global equity markets' performance has been strong, driven by a few macro events including the European Central Bank's launching of a bond buying program, and the Federal Reserve launching a program to buy mortgages in the open market and maintaining its commitment to keep interest rates low. The equity rally was widespread; the emerging and developed markets posted gains; and both growth and value, and both large and small cap showed strength. Financials was the top performing economic sector in the non-U.S. developed markets for the quarter and year-to-date.

Volatility in the equity markets is continuing into the fourth quarter. In keeping with the volatility theme, equity markets have been declining since mid-September, but markets have been strong most of the year and the WSIB has benefited from upside volatility, too.

Private Equity
Mr. Ruggels reported on the Private Equity portfolio for the quarter ended June 30. He said that Hamilton Lane would share private equity market perspectives and touch on performance later on in the agenda. Mr. Ruggels reported that staff is gearing up for the 2013 Private Equity Annual Planning session scheduled for January 9, 2013. He believes 2012 has been a very good year for private equity in many ways. There has been a strong and steady pipeline of quality investment opportunities which has allowed execution of the 2012 commitment plan right on target; staff will not bring any deals in December. WSIB added three new general partner (GP) relationships in the small to mid-market space to fill specific needs in the portfolio that were identified at the last planning session. While fundraising activity has picked up a bit, it remains challenging enough to keep the general partners focused on prudently investing available capital with a high quality bar; and allows staff a comfortable amount of time to conduct due diligence on funds, negotiate terms and conditions with some success, and gain access to some funds in a scale that would have been challenging in a more robust fundraising market.

Mr. Ruggels said drawdown activity has been slower relative to last year, reflecting an appropriate amount of caution and discipline by GPs, but has been steady and getting stronger in the second half of the year. Credit markets remain relatively strong, allowing new deals to get done with attractive terms, and providing GPs with flexibility to manage debt maturities in the portfolio. Prices being paid for companies appear to be full, but not outrageous. Distributions, while also running behind last year's pace, are still relatively strong, and picking up in the second half of the year. Net cash flows (distributions minus drawdowns) have been strongly positive for the second year in a row, and were more than $700 million net positive through October.

Mr. Ruggels commented the industry has weathered a tremendous amount of scrutiny in the past couple of years fueled by presidential politics. Now that the election is over, hopefully the rhetoric will die down. In summary, the private equity markets appear to be set up a period of attractive returns over the next few years, assuming the markets hold together and the global economy continues to recover.

Real Estate
Mr. Draper reported on the Real Estate portfolio for the quarter ended June 30. He said there is not a lot of volatility and the markets have been pretty consistent quarter-to-quarter as it recovers from the market low spot. Money continues to pour into the asset class. There is a phenomenal amount of money coming in from sovereign wealth funds and other large institutional investors. There have been a larger number of very large transactions in the market place, which shows a strong movement to invest in property. There are more opportunities appearing in more challenging markets, such as Europe. WSIB real estate is focusing on necessity property opportunities within the market. Mr. Draper said that WSIB performance is slow but steady, with uplift in a few areas including office buildings in Seattle, industrial warehouses in Mexico, and the death care industry. Healthcare has experienced a downturn. The real estate portfolio return on a rolling 12-month basis is 12.5 percent. If one were to isolate the REOCs, the one-year return would be 19.3 percent. For the 10-year period, there is a 9.2 percent return net of all costs, or 120 bps higher than the benchmark. Mr. Draper said 6.5 percent of this

was income generated from operations. He said WSIB has been successful in liquidating lower performing investments over time. In closing, he said that staff is looking to increase its allocation in necessity-based properties to closer to 60 percent over the next few years.

Tangible Assets
Mr. Graves reported on the Tangible Assets portfolio for the quarter ended June 30. He said the portfolio generated a total return of -2.99 percent and an internal rate of return of -2.18 percent; the difference was the timing of distributions during the quarter. This underperformed the CPI +400 bps tangible assets benchmark return of 0.79 percent for the quarter. He said these results represent the legacy portfolio of a handful of infrastructure and energy partnerships and one wholly-owned timber asset. Going forward, the Tangible Assets team will be restructuring and growing the number of investments significantly, both in terms of committed and invested capital. The Board has approved three new managers for the Tangible Assets program, totaling $650 million in new commitments since September of this year. Two of these commitments have closed, and have called $49 million over the past two months. Going forward, the WSIB will see the impact of those investments as they call and invest additional capital, as well as new relationships for the program that will be presented later in 2013, after the annual plan.

Mr. McElligott complimented the investments team on a good year. He hopes the proposed regulations noted in the State Actuary's presentation are not counterproductive to investment team results. Chair McIntire echoed Mr. McElligott comments.

Private Equity – Hamilton Lane
Ms. Blackburn reported on private equity markets during the third quarter. She said there is not a lot of new news, or movement in any direction. The U.S. is performing slightly above average, deal markets are maintaining nice momentum despite economic woes, and there are buyout deals globally. Over the last two quarters, deal activity is up slightly, Europe is moderating, and Asia is stable although it is still a small part of the market. Part of what is driving the U.S. market is an increase in deals valued over $1 billion and the availability of debt. She said exit activity has decreased slightly during the quarter. She said fundraising is average, but it is taking longer periods of time to raise capital.

[Mr. Nakahara left the meeting at 1:36 p.m.]

Ms. Blackburn reported on fundraising, investor interest, and deal activity in the Asia market, with KKR being one of the more successful funds in raising funds in the region. Many investors want to increase exposure in Asia.

Ms. Dew reported the WSIB since inception return has remained consistent over the past year, and cash flow has been positive and continues to trend that way for the next quarter. The portfolio has created over $400 million in value of the past year, with 50 percent of partners posting net gains.

EXECUTIVE SESSION
Chair McIntire announced 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. He said the executive session was expected to last about 10 minutes, at which time the Board would reconvene in open session.

Discussion with Consultant
[The Board went into executive session at 1:50 p.m.]
[Mr. Masten left the meeting at 1:58 p.m.]
[The Board reconvened in open public session at 2:10 p.m.]

OTHER ITEMS
There were no further items to come before the Board, and the meeting adjourned at 2:10 p.m.

James L. McIntire
Chair

ATTEST

Theresa J. Whitmarsh
Executive Director