

WASHINGTON STATE INVESTMENT BOARD
Board Meeting Minutes
December 20, 2012

The Washington State Investment Board met in open session at 9:34 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
 Steve Hill
 George Masten
 Judi Owens
 Bill Longbrake
 Richard Muhlebach
 Bob Nakahara (teleconferenced)
 David Nierenberg (teleconferenced)
 Judy Schurke
 Jeff Seely (teleconferenced)
 Natasha Williams

Absent: Patrick McElligott
 Representative Sharon Tomiko Santos

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
 Tom Ruggels, Senior Investment Officer – Private Equity
 Phil Paroian, Senior Investment Officer – Public Equity
 Allyson Tucker, Senior Investment Officer – Risk Management
 and Asset Allocation
 Kristi Haines, Executive Assistant

Steve Dietrich, Attorney General's Office

[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 NOVEMBER 15, 2012, MINUTES

Vice Chair Ragan moved to adopt the November 15, 2012, minutes. Ms. Owens seconded, and the motion carried unanimously.

PUBLIC COMMENT

There was no public comment.

COMMITTEE ASSIGNMENTS

Chair McIntire referenced the list of his proposed Committee assignments. He said he had spoken with every member who would experience an assignment change, and changes are proposed that attempt to rotate members to ensure they have full exposure to Board activities. Additionally, the three new Board members will be spread out among Committees. Mr. Nierenberg offered any assistance that non-voting members could provide to the incoming voting members. Chair McIntire said he and Vice Chair Ragan would work on orientation needs for new members. Chair McIntire said Mr. Hill would continue to serve on both the Audit and Private Markets Committees until he is replaced on the Board.

Vice Chair Ragan moved that the Board accept the Chair's recommendations for Committee assignments. Ms. Owens seconded, and the motion carried unanimously.

EXECUTIVE DIRECTOR'S REPORT

Ms. Whitmarsh reported that staff is deep into the strategic planning process. Two important strategy sessions will take place next month; the Private and Public Equity Annual Planning sessions. She encouraged all Board members to attend those meetings. Ms. Whitmarsh said she would present the overall strategic plan at the February Board meeting, after the Administrative Committee has an opportunity to comment on it at its January meeting.

Ms. Whitmarsh noted that Shott Capital was recently acquired by Hamilton Lane, the Board's consultant for private equity. Shott manages liquidation of private equity stock distributions. Staff does not believe this represents any conflicts.

Ms. Whitmarsh said she provided an update on the WSIB to the Select Committee on Pension Policy yesterday, and received two follow-up requests. She and Mr. Hill will work jointly to provide a broader discussion of the defined contribution plans and level of participation. Additionally, she was able to introduce the WSIB's budget request for additional FTEs and compensation. Senator Conway asked to have the Committee's legislative members briefed on WSIB needs so they can be educated prior to the matter coming before the fiscal committees. Ms. Whitmarsh reported that Senator Conway complimented staff and the Board on the terrific job they do for beneficiaries.

Ms. Whitmarsh reported the WSIB's budget submittal came through the Governor's budget intact, but there is a long way to go in the budget process.

Three new investment officer positions were hired: the Assistant Senior Investment Officer and Investment Officer within Public Equity, and the Assistant Senior Investment Officer – Tangible Assets. She will introduce the new appointees as they join staff early next year.

Senator Brown shared that she is serving on the transition team for Governor-elect Jay Inslee. The transition team is still in the recruitment phase for several cabinet-level positions, and she welcomed anyone with potential candidates to contact her or any member of that team.

The Treasurer noted the impending Board member departures and said the Board would continue business as usual until new members are appointed.

BOARD REPORT ON CONFERENCE ATTENDANCE

Ms. Williams gave a review of the International Centre for Pension Management's Board Effectiveness Program she attended in November. Topics included current Board issues and lessons for the governance of pension institutions; board dynamics; guiding and assessing strategy; monitoring results; pension plan sustainability; assessing financial and other risks; enhancing management and board performance; and addressing current board challenges. Ms. Williams discussed the presenters, participants, diversity of attendance, discussions, lectures, and level of participation. She recommends the program for new Board members. She also offered some proposed reading materials for all members.

ADMINISTRATIVE COMMITTEE REPORT

Chair McIntire reported the Administrative Committee met November 15. It reviewed the 2013 Board Education List recommended by staff. Members requested the Council of Institutional Investors meetings be recommended for all trustees.

Chair McIntire moved that the Board approve the 2013 Recommended Board Education List. Mr. Masten seconded the motion.

Chair McIntire said he would like to propose an amendment to the motion to add the ICPM Board Effectiveness Program to the list. There were no objections.

The above motion, as amended, carried unanimously.

AUDIT COMMITTEE REPORT

Mr. Hill reported the Audit Committee met December 4. It reviewed the Audit Recommendations Status Report, which had no outstanding audit recommendations for the first time. Mr. Hill complimented management and staff on this accomplishment. The Committee also received internal audit reports on Budget Management and Revenue Transfers-In and Public Equity Manager Monitoring. Both reports were positive and contained no audit recommendations. The Committee reviewed the Annual Audit Plan Status Report and the Investment Referrals Quarterly Report, and heard an update on the 2012 Proxy Season Voting. Duff and Phelps reviewed WSIB's alternative asset valuation policies and made recommendations for improvement. They also reviewed a significant

number of general partner valuation policies and identified potential valuation issues. Ms. Logan will report back to the Audit Committee at their June meeting with a progress report on implementing the recommendations. The Committee also received a report on the Board's Conflict of Interest Policy Compliance from Peterson Sullivan LLP. There were three findings related to travel expenses paid for directly by outside sources. Management agrees with the findings and has implemented new procedures to avoid these types of findings in the future.

Conflict of Interest Policy Revision

Staff implemented a recommendation made by the State Auditor's Office that Board members and staff certify in writing, upon appointment and annually thereafter, they have read and will comply with the Board's Conflict of Interest Policy 2.00.100. The proposed revisions to the policy reflect current practice.

Mr. Hill moved that the Board adopt the proposed revisions to the Conflict of Interest Policy 2.00.100. Ms. Williams seconded, and the motion carried unanimously.

Vice Chair Ragan asked what would happen if a Board member refused to make the certification as required by policy. A discussion ensued as to what actions the Board and Chair could take with members and the appointing body to ensure compliance or if it would be possible to remove the member for cause. A suggestion was made to give materials to the appointing authority prior to appointments. Mr. Masten proposed the Assistant Attorney General provide advice on the Board's ability to enforce any of its policies, to determine if there is any potential issue. Treasurer McIntire referred the issue to the Administrative Committee for further examination and asked Mr. Dietrich to assist the Committee in sorting through the matter; and specifically with the question: does the Board have authority to remove an appointed official?

Daily Valued Funds Policy Revision

Mr. Hill said staff recommends the trading and valuing schedule be changed to follow the Bond Market instead of the New York Stock Exchange (NYSE). The NYSE was selected when the daily valued funds included equities, and they are no longer part of the portfolio.

Mr. Hill moved that the Board adopt the proposed revisions to the Daily Valued Funds Policy 2.14.300. Ms. Williams seconded, and the motion carried unanimously.

FY 2012 Independent Financial Statement Auditors' Report

Mr. Hill reported that Peterson Sullivan LLP concluded the financial statements prepared by the WSIB were presented fairly in all material respects. There were no management letter items for new or repeat deficiencies in internal control, and no proposed adjustments to the 2012 financial statements. Mr. Hill said the report is contained within the Board's 2012 Annual Report, but the Committee did not take action on the full report but, rather, just the section containing the independent auditors' report.

Mr. Hill moved that the Board accept the Fiscal Year 2012 Independent Auditors' Report. Ms. Williams seconded, and the motion carried unanimously.

Mr. Hill moved that the Board accept the 2012 Annual Report in its entirety. Ms. Williams seconded, and the motion carried unanimously.

Mr. Hill congratulated Ms. Williams on her appointment as the new Audit Committee Chair.

PUBLIC MARKETS COMMITTEE REPORT

Ms. Owens reported the Public Markets Committee met on December 4 to participate in an educational session on alternative passive investing. During the session, Ms. Tucker presented the results of her research on alternatives to traditional capitalization weighted passive investing, specifically fundamental value and low volatility strategies. Together, fundamental value and low volatility are compelling for their combined risk and return characteristics. Mr. Paroian will discuss these strategies further during the 2013 Public Equity annual plan presentation at the January 8, 2013, Public Markets Committee meeting.

RECOGNITION

Chair McIntire thanked Senator Brown and Ms. Schurke for their service on the Board. Both members were recognized, presented with letters of appreciation, and wished well on their future endeavors. Both members spoke in appreciation of fellow Board members and staff.

[The Board recessed at 10:51 a.m., and reconvened in open session at 11:08 a.m.]

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 approximately 30 minutes, at which time the Board would reconvene in open session.

[The Board went into executive session at 11:09 a.m.]

Private Markets Committee Report – 2013 Real Estate Annual Plan Quarterly Commingled Trust Fund Risk Report Assistant Attorney General's Report

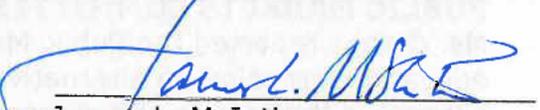
[The Board concluded the executive session and reconvened in open session at 12:48 p.m.]

Mr. Masten moved that the Board adopt the confidential 2013 Real Estate Annual Plan that was presented and discussed in executive session. Senator Brown seconded, and the motion carried unanimously.

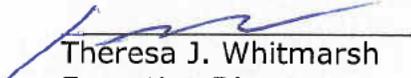
OTHER ITEMS

Ms. Owens wished everyone Happy Holidays. Chair McIntire echoed that sentiment and wished the best of luck to departing Board members Senator Brown and Ms. Schurke.

There were no further items to come before the Board, and the meeting adjourned at 12:50 p.m.


James L. McIntire
Chair

ATTEST


Theresa J. Whitmarsh
Executive Director