



## **OATH OF OFFICE**

Chair McIntire administered the oath of office to Mr. Kelly Fox, appointed by the Governor as the Law Enforcement Officers' and Firefighters' Board member for a three-year term from February 22, 2013, until December 31, 2015.

## **COMMITTEE ASSIGNMENT**

Chair McIntire recommended that Mr. Fox be appointed to the Public Markets Committee to fill the vacancy created by departure of Mr. McElligott.

**Chair McIntire moved that the Board assign Kelly Fox to the Public Markets Committee. Mr. Masten seconded, and the motion carried unanimously.**

## **ADOPTION OF THE FEBRUARY 21, 2013, BOARD MEETING MINUTES**

**Mr. Masten moved to adopt the February 21, 2013, Board meeting minutes. Ms. Williams seconded, and the motion carried unanimously.**

## **PUBLIC COMMENT**

Ms. Alyssa Giachino, UNITE HERE, provided public comment regarding the investment of TPG Capital and Apollo Global Management in Caesars Entertainment (previously Harrah's Entertainment). The WSIB is an investor in TPG Partners V, the fund in which TPG's Caesar investment is held. Ms. Giachino's comments related to transaction and monitoring fees charged to Caesars Entertainment by Apollo and TPG and UNITE HERE's concern regarding what they see as misalignment of interest between the general partners and limited partners in this investment. Ms. Giachino distributed a draft of a letter which she requested the Board consider sending to TPG addressing concerns around alignment of interests.

Ms. Whitmarsh noted that WSIB staff have previously provided a response to UNITE HERE regarding their concerns and have also held a conference call with UNITE HERE representatives to explain the WSIB's position and role. The WSIB holds a seat on the advisory committee for TPG Partners V and closely monitors the relationship and the Board's investments.

## **EXECUTIVE DIRECTOR'S REPORT**

Ms. Whitmarsh noted that the Public Markets and Private Markets Committees would not meet in May and asked Board members to ensure the July 16-18 meeting dates were noted on their calendars. She announced that Mr. Dietrich, the Board's assigned Assistant Attorney General, was moving on to other assignments within the Attorney General's office and she would be meeting with Attorney General staff on a transition plan. She also announced WSIB staff departures and one new hire.

Ms. Whitmarsh noted that compliance staff attended a meeting of enterprise risk management public pension fund directors in March and shared the Board's risk appetite statements. The group was excited to see a pension fund that had successfully created risk appetite statements and appreciated having an example to take back and use in their programs. LEAN process efforts continue within the agency and our private equity partner First Reserve is sending Ken Meyer, KVM Services, to further train staff on the

LEAN process on May 3. Mr. Meyer will review the current strategic plan with staff and give guidance on which projects will benefit from the LEAN process improvement methods. Ms. Whitmarsh also noted that she was recently elected to serve on the board of the Council for Institutional Investors.

Ms. Whitmarsh reviewed the results of the annual review of companies in which the WSIB is invested that have business operations in either Sudan or Iran and the WSIB's efforts to encourage their curtailment or cessation of those business activities. The most recent query of public equity fund managers regarding investments in companies doing business in Sudan found that our managers hold 21 of the companies on the Conflict Risk Network (formerly United to End Genocide) "highest offender" list. The majority of the companies are energy, industrials, and utilities firms. Mr. Nierenberg said he was unimpressed with the company response rate and would like staff to consider actions to improve this. Staff agreed to bring the issue back to the Audit Committee in June.

### **PRIVATE MARKETS COMMITTEE REPORT**

Mr. Masten reported the Private Markets Committee met on April 11 to consider one private equity investment recommendation and one real estate investment recommendation.

#### **Insight Venture Partners VIII, L.P.**

**Mr. Masten moved that the Board invest up to \$150 million, plus fees and expenses, in Insight Venture Partners VIII, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Ms. Williams seconded.**

Mr. Masten reported the fund will primarily invest growth equity in software, software-enabled services, and internet businesses with established momentum and potential for significant growth in revenue, operating profits, or both. The firm executes both minority and majority investments between \$10 million to \$200 million, as well as take-private transactions, including leveraged buyouts. The WSIB invested in three prior Insight funds through the Pathway portfolio; however, if approved, Insight will be a new direct general partner relationship for the WSIB. He said the recommendation is based on Insight's stable, experienced investment team; successful strategy for growth; differentiated sourcing model; consistent, attractive performance; and fit in the WSIB's private equity portfolio, as well as other relevant factors.

**The motion carried unanimously.**

#### **Calzada Capital Partners, LLC**

**Mr. Masten moved that the Board approve the transfer of the WSIB's investments in and commitments (as adjusted) to Hometown America, Corporate Properties of the Americas, PBSC Holdings, and Terramar Retail Centers to Calzada Capital Partners, LLC, plus an additional commitment of \$250 million, plus fees and expenses, subject to continuing due diligence and final negotiation of terms and conditions. Ms. Frost seconded.**

Mr. Masten reported the partnership will be led by Richard Cline and Raymond Flores, two highly-experienced professionals with a long history managing investments for the WSIB. The partnership's strategy will be to invest in or with real estate operating companies (REOCs) on a global basis, with an emphasis on the Americas. The proposal includes transferring four REOCs currently overseen directly by staff to Calzada in addition to capital for investments in new REOCs. He said the recommendation is based on the firm's experienced management team, strategy, strong track record, structure, and fit in the WSIB's real estate portfolio.

Mr. Masten noted that the creation of this partnership had been discussed at previous real estate annual planning sessions and that the Board has had a great experience with each of the two partners through previous investments. Discussion ensued regarding governance structure of the investment.

**The above motion carried unanimously.**

### **AUDIT COMMITTEE REPORT**

Ms. Williams reported the Audit Committee met on March 5 to review three internal audit reports on: Human Resource Management; Trade Processing, Confirmation, and Settlement; and the Board's Private Markets Back-Office Service Provider, Hamilton Lane.

Each report contained recommendations that management agreed with, and the Audit Committee will receive status on resolution at the next meeting in June.

The Committee received status updates on prior audit recommendations which have all been resolved over the quarter, the annual internal audit plan, international proxy voting, quarterly investment referrals, and the Daily Valued Funds Annual Report, which contained no pricing errors in the Savings Pool or Bond Fund for 2012.

The Committee reviewed the 2012 Conflict of Interest Policy Compliance Review scope of services. Based upon a review of bids received for these services from three firms, staff would like to hire Peterson Sullivan LLP to perform the 2012 Conflict of Interest Policy Compliance Review.

**Ms. Williams moved that the Board appoint Peterson Sullivan LLP to perform the calendar year 2012 Conflict of Interest Policy Compliance Review. Ms. Owens seconded, and the motion carried unanimously.**

The Committee also received an overview of the 2012 enterprise risk management and investment compliance programs. KPM & Associates, real estate compliance vendor, explained their process for real estate compliance testing and provided the compliance results.

### **CAPITAL MARKET ASSUMPTIONS**

Ms. Tucker introduced herself and reviewed the format of her presentation, noting the Board would have further discussion regarding capital market assumptions at its July meeting. Capital market assumptions are comprised of three key data points: expected return, risk, and correlation. Expected return is an arithmetic return, or simple average of the returns, which differs from the geometric returns shown on performance reports.

Expected return is a strategic, long-term assumption typically derived from historical capital market data, current interest rates, market expectations for future inflation, other economic variables, and traditional financial theory. The risk number in capital market assumptions focuses only on volatility, also called standard deviation, and is usually derived by using historical data. Correlation is how the asset classes move in relationship to each other over a given time period and is derived by using historical data. A correlation of positive 1 indicates that the asset classes have always moved in the same direction, while a correlation of negative 1 mean indicates that they have always moved in the opposite direction. Investments with negative or low correlation to each other provide the most diversification. Ms. Tucker noted that for investments with volatility, arithmetic return and standard deviation must be looked at together and that arithmetic return is always higher than geometric return.

Discussion ensued regarding the normal distribution of expected returns. Ms. Tucker noted that the Commingled Trust Fund's (CTF's) overall returns have fallen within the range of previously forecast expected returns.

Ms. Tucker reviewed the process undertaken to develop the recommended capital market assumptions, including various considerations. WSIB staff seeks capital market assumption input from the pool of investment consultants and also performs internal modeling. Discussion ensued regarding the process, including advantages and disadvantages of the WSIB's process, and expectations related to inflation and the real rate of return. Ms. Tucker reviewed the range of consultant expectations for arithmetic return, standard deviation, and geometric return.

Ms. Tucker reviewed staff's proposed 2013 capital market assumptions by asset class, noting changes from 2012, as well as key components factoring into the recommendation. Discussion ensued regarding the process and outlook for various asset classes. Mr. Bruebaker noted that in 2012 a consultant undertook the process of developing the capital market assumptions due to a staff vacancy; the proposed 2013 capital market assumptions are more consistent with staff's previous recommendations and changes from the 2012 capital market correlation assumptions largely reflect the difference between using a consultant versus internal staff who are more familiar with the overall portfolio.

Mr. Longbrake suggested the Board look deeper into one or two asset classes at the July meeting, specifically fixed income and private equity given the structure of the WSIB's fixed income program and the Board's large allocation to private equity and differing views on the outlook for that asset class.

Ms. Tucker reviewed the distribution of return expectations for the CTF based on the recommended capital market assumptions, noting the expected distribution narrows over the long term as significant market movements up and down average out over time. She concluded by noting that the WSIB capital market assumptions are also used by the Office of the State Actuary in their valuation work as well as the Higher Education Coordinating Board in setting the price of college tuition units within the Guaranteed Education Tuition program.

Discussion ensued regarding the actuarial assumed rate of return which is set by the Legislature and the continuing work WSIB staff and the consultant will undertake for the asset allocation review at the July Board meeting.

**Mr. Masten moved that the Board adopt the proposed 2013 capital market return, risk, and correlation assumptions. Ms. Owens seconded, and the motion carried unanimously.**

[The Board took a recess at 11:24 a.m. and reconvened at 11:36 a.m.]

[Mr. Fox left at 11:30 a.m.]

### **SUCCESSION PLANNING FOR PRIVATE EQUITY GENERAL PARTNERS**

Mr. Ruggels introduced Mr. Canfield, Managing Director of GTCR, and Mr. Hammarskjold, Chief Executive Officer of Hellman & Friedman, and noted they would be providing an education session on succession planning for private equity general partners. Due to the long-term and illiquid nature of the Board's private equity investments, the continuing organizational stability of the general partners who are managing the funds the WSIB invests in is critically important. Both firms are general partners in funds in which the Board has invested, and both have recently managed successful transitions of leadership within their organizations.

Mr. Canfield provided a brief overview of GTCR and reviewed GTCR's leadership timeline and the course of evolution of leadership within the firm. About 10 years ago, GTCR implemented its Perpetual Professional Partnership Model, which allows partners to continually evolve and grow in leadership responsibilities over time. He highlighted the significance of succession planning for private equity partnerships, noting that four of the five largest U.S. buyout funds are managed by senior leaders in their sixties. Mr. Canfield noted there are only a few good predictors of a successful leadership succession. He reviewed key ingredients for effective succession: investment strategy; framework for professional evaluation; leadership experience for professionals; and trust.

Mr. Hammarskjold also noted the importance of looking at succession planning as the Board considers making investments in the private equity area. He provided an overview of Hellman & Friedman and reviewed the three leadership transitions they have gone through since inception of the firm. He reviewed key factors for successful succession planning, including strong culture; economic meritocracy; open communication and transparency; focused and consistent strategy; and active cultivation of next generation leaders.

Discussion took place during the presentations on various elements of discussions, including 360 review process; GTCR's professional partners model; challenges of global structure and multiple offices; career paths within firms for internal promotion of potential future management; assessment of management teams in companies they invest in and what they look for in regards to succession planning in those companies; importance of focused and consistent strategies; how to avoid group think; diversity within their firms; and risks their firms experience. Discussion also took place regarding their outlook for the private equity asset class going forward.

[The Board recessed for lunch at 1:00 p.m. and reconvened at 1:29 p.m.]

**ADMINISTRATIVE COMMITTEE REPORT**

**Assistant Attorney General's Report**

Mr. Dietrich requested approval to negotiate for the Board to join a class action lawsuit in Italy relating to an alleged securities fraud at Banca Monte Dei Paschi Di Siena in Siena Italy. There is no out-of-pocket cost to the WSIB to join the lawsuit and the Board would have the opportunity to recoup some of the loss in that security.

**Ms. Owens moved that the Board approve the AAG's recommendation to join the class action litigation as discussed. Ms. Williams seconded, and the motion carried unanimously.**

**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 and to discuss the performance of a public employee. He said the executive session was expected to last about 30 minutes, at which time the Board would reconvene in open session.

[The Board went into executive session at 1:34 p.m.]

**Quarterly CTF Risk Report  
Executive Director's Performance Evaluation**

[The Board reconvened in open session at 2:51 p.m.]

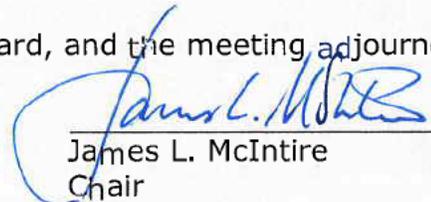
**Chair McIntire moved that the Board accept the Executive Director's evaluation as written. Mr. Masten seconded.**

Chair McIntire stated that the Board was very pleased with the performance of Ms. Whitmarsh.

**The motion carried unanimously.**

**OTHER ITEMS**

There were no further items to come before the Board, and the meeting adjourned at 2:52 p.m.

  
James L. McIntire  
Chair

ATTEST

  
Theresa J. Whitmarsh  
Executive Director