WASHINGTON STATE INVESTMENT BOARD
Board Meeting Minutes
September 19, 2013

The Washington State Investment Board met in open session at 9:38 a.m. in the boardroom at 2100 Evergreen Park Drive SW, Olympia, Washington.

Present:	Treasurer Jim McIntire, Chair Mike Ragan, Vice Chair Kelly Fox Marcie Frost Arlista Holman George Masten Senator Sharon Nelson Bill Longbrake Bob Nakahara David Nierenberg Joel Sacks Representative Sharon Tomiko Santos Jeff Seely Natasha Williams
Absent:	Richard Muhlebach
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 Phil Paroian, Senior Investment Officer – Public Equity Tom Ruggels, Senior Investment Officer – Private Equity Allyson Tucker, Senior Investment Officer – Risk Management and Asset Allocation Diana Will, Senior Investment Officer – Tangible Assets Chris Green, Risk Analyst Kristi Haines, Executive Assistant Mary Lobdell, Attorney General's Office John Begier, Seagis Property Group Charlie Lee, Seagis Property Group Mike Cushing, Alere Property Group Jaime de la Garza, Corporate Properties of the Americas Mike Luecht, ML Realty Partners Jody McIntosh, CEM Benchmarking, Inc. Neil Rue, Pension Consulting Alliance

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

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

COMMITTEE ASSIGNMENT

> **Chair McIntire moved that the Board approve his recommendation to assign Ms. Holman to the Audit Committee. Vice Chair Ragan seconded, and the motion carried unanimously.**

Chair McIntire said the new Chair may opt to make further Committee assignments.

CHAIR AND VICE CHAIR ELECTIONS

> **Mr. Ragan nominated Treasurer McIntire as Board Chair. Representative Santos seconded the motion.**

There were no further nominations for Board Chair.

> **Mr. Masten called for a unanimous ballot for nominating Treasurer McIntire as Board Chair. Ms. Williams seconded, and Treasurer McIntire was nominated as Board Chair by unanimous ballot.**

> **Mr. Ragan nominated Ms. Frost as Board Vice Chair. Representative Santos seconded the motion.**

There were no further nominations for Board Vice Chair.

> **Mr. Masten moved that a white ballot be cast for nominating Ms. Frost as Board Vice Chair. Ms. Williams seconded, and Ms. Frost was nominated as Board Vice Chair by white ballot.**

ADOPTION OF THE JULY 16-18, 2013, MEETING MINUTES

> **Mr. Ragan moved to adopt the July 16-18, 2013, meeting minutes. Vice Chair Frost seconded, and the motion carried unanimously.**

CHAIR AND VICE CHAIR ELECTIONS (CONTINUED)

Chair McIntire thanked the Board for their support in re-appointing him as Board Chair. He noted 2013 has been a transitional year, with a number of new members appointed to the Board. He said he plans to work with the Vice Chair on mentoring and developing the culture of the Board so that it can move forward and continue to be successful. He asked all members to think about what the leadership can do to help them in their roles and assist with the learning curve. Chair McIntire also asked members to consider what preferences they may have in Committee assignments. He encouraged Board members to expose themselves to as much Board and Committee activity as possible, noting that members need not be assigned to a Committee to attend meetings.

PUBLIC COMMENT

There was no public comment.

EXECUTIVE DIRECTOR'S REPORT

Ms. Whitmarsh noted the only meeting next month is the October 3 Private Markets Committee meeting; all other meetings were cancelled. She reported there have been several leadership and ownership changes within some of the WSIB investment management firms. Staff is monitoring those situations and anticipates no impact to the relationships or level of service. Ms. Whitmarsh introduced Ms. Margareta Raducan, recently appointed as Investment Officer – Real Estate. She also announced that Mr. Fletcher Wilson, Investment Officer – Public Equity, had recently passed the Level 3 Chartered Financial Analyst exam.

Ms. Whitmarsh provided a WSIB update to the Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board on August 28, and presented performance and economic outlook information to the Pension Funding Council (PFC) yesterday. She noted that Vice Chair Frost serves as the PFC's new Chair. Mr. Bruebaker is scheduled to present a performance update to the Select Committee for Pension Policy in November. Ms. Whitmarsh pointed out these activities are in response to the Board's expressed desire to increase the WSIB's profile and provide education to key stakeholders.

Ms. Whitmarsh reported that staff had been contacted about potentially managing the Washington State Opportunity Scholarship's (WSOS) fund, which was created by the Legislature several years ago for math and science scholarships. Fund monies come from grants from both the state and private sector. She said this is an indication of the confidence in the WSIB. The WSOS's Investment Committee recommended and their Board unanimously approved pursuing WSIB as its investment manager, and they will work on the legal and legislative aspects, as it will require legislation for WSIB to manage the monies. She will keep the Board informed of their efforts.

Ms. Whitmarsh said that Operations staff and the Audit Director have been meeting with a number of the real estate operating companies to assess internal controls and will report back to the Audit Committee and Board on their activities later this year.

Chair McIntire noted the WSIB does not have to take a policy position relating to the WSOS's legislation, but he plans to support their efforts as State Treasurer.

ASSET ALLOCATION FOLLOW-UP DISCUSSION

Asset Allocation and Economic Scenarios

Chair McIntire introduced the asset allocation follow-up discussion, stating the Board had an in-depth discussion regarding the Commingled Trust Fund's (CTF) asset allocation at the July meeting but no recommendation was made. Rather, members asked questions and requested further analysis. Mr. Bruebaker said the CTF asset allocation is reviewed at least every four years. Past practice has been for the Board to discuss it in July, and take it up again at its September meeting. He said the Board could act on staff's recommendation today, or ask staff to bring back more information in November or December at the Board's direction.

Mr. Rue, Pension Consulting Alliance (PCA), introduced himself. PCA has assisted with the Board's asset liability studies since 2005. He reviewed the process the Board had gone through up until this point, which included introductory, educational sessions prior to the July meeting; discussion, deliberations, and voting at the July meeting; and now a summarization and response to questions asked by members. Mr. Rue revisited the impacts that different economic scenarios could have on assumptions and in considering various asset class behaviors. He said most capital market assumptions are based on long-term averages and reflect an average, more favorable economic regime. He said it is important to understand that, once a policy is selected, the journey can be variable over time. He discussed trends and cycles based on economic environments, use of capital market assumptions, and data and analysis used in the modeling.

Mr. Rue said the simulation work, deliberations, and dialogue at the July meeting was helpful in discussing risk tolerances. The Board had asked for all the simulations to be run incorporating the risk tolerances (protection versus return) expressed by members through the voting process in July. He noted the differences in risk tolerances among the staff, voting, and non-voting members. The voting members placed more emphasis than the non-voting Board members and staff did on minimizing cost volatility and that input resulted in a policy asset mix very close to what the Board currently has in place.

Mr. Rue reviewed the resulting data based on inflation and growth as simulated with the risk model and tolerances. He noted the overall analysis showed private equity as the most stable asset class across all scenarios; however, long-term investment of that asset class is necessary to reap the benefits through the system (which the WSIB has done). Mr. Rue noted the projections simulated the length of economic scenarios of between 6 to 7, or 12 to 15 years. The Board discussed the effect that longer term investment horizons could have on the differing periods of growth, inflation, recession, etc.
Mr. Nierenberg commented that even analyzing data sets of 45 years can be problematic. He quoted, "Forecasts are difficult, particularly those about the future." He said the WSIB has a system that has worked reasonably well over a fairly long period of time and is flexible. He noted that staff's recommendation is not making radical changes, but provides agility and flexibility.

2013 Commingled Trust Fund Strategic Asset Allocation Recommendation
Ms. Tucker presented staff's recommendation for the CTF strategic asset allocation policy. Staff recommended a modest change to the current CTF strategic asset allocation.
Ms. Tucker reviewed the WSIB's investment beliefs that pertain most closely to the strategic asset allocation discussion: maximizing return at a prudent level of risk, taking a long-term view in our strategic asset allocation decision and in implementation decisions, considering risk with a focus on portfolio and asset class level, the preference for a broadly diversified portfolio, and beliefs in certain types of mean reversion. She noted additional considerations incorporated into the WSIB's investment philosophy, noting liquidity and maximizing benefits from existing resources as important considerations.

Ms. Tucker reminded the Board the last asset allocation review was performed in 2009. Historically, there have been times where asset class investment programs are being ramped up or significant alterations to the portfolio were made, but those are smaller considerations this year and only a modest change was recommended. She said the Tangible Assets class is currently below its policy range, and is the only asset class in ramp-up mode.

Ms. Tucker noted that building a strategic asset allocation policy involves making both qualitative and quantitative assessments about the portfolio, markets, and risk tolerance.

She said using the asset/liability modeling independently constructed by PCA and Cheiron-EFI is one way to take a quantitative format for modeling to become a catalyst for a qualitative discussion about risk. Ms. Tucker reviewed the final risk preference results as expressed by the Board at the July meeting, noting that all three groups (staff, voting, and non-voting members) expressed a preference for return enhancement over risk reduction which is consistent with the WSIB's primary mission.

Ms. Tucker pointed out the modeled result was based on the voting Board member risk tolerance and assumes a constraint to Tangible Assets of 5 percent, which was a modification made based on Board feedback. The optimal result differed from the current policy in that the Fixed Income target allocation was reduced by 2 percent, Real Estate increased by 3 percent, and Public Equity was reduced by 1 percent. She said staff used this as the starting point for developing a recommendation.

Ms. Tucker said the major qualitative aspects associated with the proposed modification to the strategic asset allocation from the modeled results were based on staff's preference to maintain the current public to private market ratio in the portfolio (driven by liquidity considerations), and a preference to prioritize implementation of the private equity portfolio construction strategy over the absolute size of the program. She said the optimal portfolio resulted in a 3 percent higher allocation to private markets than the current allocation. The WSIB already has a significant allocation to private markets and it is staff's recommendation for the Board to adopt a strategic asset allocation that maintains the ratio as opposed to increasing it. She noted that, while the private equity team could meet the current target allocation, implementation of the model portfolio would be delayed due to the portfolio's size.

Staff's proposed asset allocation recommendation called for a long-term increase to the real estate target allocation of 2 percent and a decrease to the private equity target allocation of 2 percent to come in line with its current actual allocation. Moving 2 percent from private equity to real estate maintains the broad risk preferences of the Board, the private to public ratio, and maintains the high level risk/reward position of the overall CTF. Ms. Tucker reviewed the modeled distribution of returns of both the current and the proposed asset allocation policy over several time horizons and noted they do not show material difference between the two in any time period reviewed. She said they are very similar.

Mr. Masten said Private Equity staff had reported in the past they believed they would overshoot the allocation target, but never did. He also recalled discussions about having difficulty with getting the 13 percent allocation to work in Real Estate. He said it appears increasing the allocation would compound that issue, and he does not see what is gained by staff's proposal. Mr. Bruebaker said he and Mr. Draper have had extensive discussions on putting more money to work in Real Estate. Staff is prepared to implement whatever the Board approves in a quality way, and believes the model portfolio is innovative and goes in the right direction. He said targets have only been overshot marginally and only for short periods of time.

In response to Mr. Seely's question about the difficulty in increasing Private Equity, Ms. Tucker noted it is because the CTF has grown significantly so it is more difficult to sustain the private equity percentage of the CTF because of its size. Mr. Bruebaker said the Private Equity program growth would continue and our large private equity

distributions also need to be reinvested. Mr. Nierenberg noted the elaborate process the Board had gone through which resulted in only minor tweaks being recommended. He believed that was reasonable, and suggested a complementary approach would be to look at what other leaders are doing to see what can be learned from that.
Mr. Bruebaker responded to questions from Messrs. Sacks, Nakahara, and Longbrake regarding changes that would result from implementing the recommendation, the length of time it would take to get Tangible Assets to its target, and the Innovation Portfolio's target and composition. Representative Santos said she does not have a lot of issues with the recommendation, but did have some concern with the increase in Real Estate and how the modeled results translated into staff's recommendation. A discussion ensued related to the risks and returns of adjusting Private Equity versus Real Estate's targets, and the potential difficulties with increasing the Private Equity target.
Ms. Williams spoke in favor of staff's recommendation, noting the proposed policy was a minor modification that seemed to put the WSIB in a better position to work within existing assets, while still being conservative and consistent with investment beliefs.
Mr. Masten asked if the matter had to be acted immediately and suggested that members may want to take more time to consider it. Messrs. Ragan and Fox also spoke in support of staff's recommendation, and Mr. Sacks said he also tended to support it.

> **Mr. Ragan moved that the Board adopt staff's recommended strategic asset allocation targets and ranges. Vice Chair Frost seconded and the motion carried, with Mr. Masten and Representative Santos voting no.**

[The Board recessed at 11:30 a.m., and reconvened in open session at 11:40 a.m.]

AUDIT COMMITTEE REPORT
Ms. Williams reported the Audit Committee met on September 10. It reviewed an internal audit report on the Board's public records request processes. She said a high level of compliance was reported, along with one recommendation regarding documentation of telephonic communications with requesters. Regarding external audits: the State Auditor's Office selected the WSIB as one of 11 state agencies included in a statewide audit of Contracts Management. Work has been completed, and WSIB results were positive. A final report is expected next month. The Committee also received the results of a biennial review of the WSIB's compliance with Board governance policies. The WSIB Risk and Compliance Director reported three compliance issues: two policy reviews were not conducted timely, and one Administrative Committee process was not formally approved. Each compliance issue is being addressed by management.
Ms. Williams said the Committee also received updates on the: 1) status of prior audit recommendations, 2) current year internal audit plan progress, 3) prior year internal audit performance measures, 4) 2014 internal audit peer review, 5) quarterly log of investment referrals, 6) staff's implementation of alternative asset valuation improvements, and 7) corporate governance program. She said staff has been working with Hermes Equity Ownership Service, as well as eight other pension funds, with the shared goal of reframing the corporate governance debate, on developing a culture of constructive investor-corporate dialogue.

Internal Audit Charter Policy 1.00.190 Revision
Ms. Williams said the Committee reviewed minor revisions proposed by management to the Internal Audit Charter Policy 1.00.190.

Ms. Williams moved that the Board adopt the Internal Audit Charter, Policy 1.00.190. Mr. Masten seconded, and the motion carried unanimously.

Ms. Williams reported the Committee also approved the WSIB Audit Director's compensation.

PUBLIC MARKETS COMMITTEE REPORT

Vice Chair Frost reported the Public Markets Committee met on September 10 to consider a new investment policy, revisions to three existing investment policies, hiring of a global equity manager, and an investment into alternative passive strategies.

U.S. Treasury Inflation Protected Securities Fund Policy 2.14.400

Vice Chair Frost said that, in June, the Board approved moving management of the U.S. Treasury Inflation Protected Securities (TIPS) component of the Retirement Strategy Funds to the internal WSIB Fixed Income unit. The primary reasons for the change were the lower cost of internal management and our high conviction in WSIB's internal Fixed Income team. The proposed policy establishes a U.S. TIPS Fund for both qualified and non-qualified assets.

Vice Chair Frost moved that the Board approve the U.S. Treasury Inflation Protected Securities Fund Policy 2.14.400. Mr. Ragan seconded, and the motion carried unanimously.

Revisions to Policies 2.10.100, 2.11.100, and 2.13.100

Also in June, the Board approved changes to the Retirement Strategy Funds and public equity portfolio within the CTF, which require revisions to three investment policies. The revisions reflect the change of the international equity component of the Retirement Strategy Funds to a passively managed portfolio, the movement of the U.S. Treasury Inflation Protected Securities component of the Retirement Strategy Funds to be managed by the WSIB's Fixed Income team, and the creation of a passive emerging markets equity portfolio for the CTF. Additionally, further to the search for a Socially Responsible Balanced Fund for the defined contribution programs, the benchmark for this option is being changed to add international equity.

Vice Chair Frost moved that the Board approve the proposed revisions to the Public Markets Equity – Retirement Fund Policy 2.10.100, the Defined Contribution Plan 3 Retirement Funds Policy 2.11.100, and the Deferred Compensation and Judicial Retirement Account Policy 2.13.100. Ms. Williams seconded, and the motion carried unanimously.

ACTIVE GLOBAL EQUITY MANAGER SELECTION

Vice Chair Frost said MFG Asset Management (MFGAM) is a global equity manager based in Australia that executes an unconstrained, concentrated approach largely indifferent to market benchmarks. They aim to deliver preservation of capital, reduction of downside volatility risk, and an absolute return of 10 percent per annum on a gross basis over a business cycle (approximately 5 years) regardless of market conditions. MFGAM holds a highly concentrated portfolio of high quality stocks for the long term. Their unique process focuses on in-depth bottom-up stock research and macroeconomic analysis. Additionally, their portfolio construction combines a portfolio of consistent, low-beta stocks with a portfolio of higher beta stocks for a total portfolio that has lower volatility than the overall market yet participates in strongly up markets. MFGAM has executed their strategy well to produce consistent exceptional returns.

> **Vice Chair Frost moved that the Board hire MFG Asset Management for an active global equity mandate within the Commingled Trust Fund, subject to continued due diligence and successful negotiation of terms and conditions. Ms. Williams seconded, and the motion carried unanimously.**

Finally, at the September Public Markets Committee meeting, the Committee approved a recommendation of $1.5 billion in an alternative passive strategy with a construction methodology that would result in an increased emphasis on value characteristics for the CTF's U.S. passive portfolio. However, immediately after the meeting staff discovered a data problem. Staff is re-running all analyses. So far, the corrected analyses continue to support the original recommendation, but because some of the analytic results have changed (particularly the Style Research graphs), staff will be re-presenting this material at the December Public Markets Committee meeting. Without committing the Board, staff will continue to conduct due diligence and negotiations on alternative passive strategies so that, if approved by the Public Markets Committee and Board in December, it can continue with the original planned timeframe for implementation.

PRIVATE MARKETS COMMITTEE REPORT

Mr. Masten reported the Private Markets Committee met on September 5 to consider three private equity investment recommendations and one tangible assets investment recommendation.

DCPF VI Oil and Gas Coinvestment Fund, L.P.

> **Mr. Masten moved that the Board invest $100 million, plus fees and expenses, in DCPF VI Oil and Gas Coinvestment Fund, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Vice Chair Frost seconded the motion.**

Mr. Masten said the fund will co-invest alongside Denham Commodity Partners Fund VI, L.P., in all oil and gas deals done by Denham VI after June 2013. The WSIB invested in Denham VI in 2011. The proposed investment would fall into the unidentified allocation in the Board-approved 2013 private equity annual plan and is consistent with the model portfolio. The recommendation is based on Denham's strong performance, desirable exposure to the oil and gas sector, experienced team with extensive industry expertise, and fit in the WSIB's private equity portfolio, as well as other relevant factors.

> **The above motion carried unanimously.**

GTCR Fund XI, L.P.

> **Mr. Masten moved that the Board invest up to $350 million, plus fees and expenses, in GTCR Fund XI, L.P., subject to continuing due**

diligence and final negotiation of terms and conditions. Vice Frost seconded the motion.

Mr. Masten said the fund will invest primarily within four sectors in North America: information services and technology, healthcare, financial services and technology, and growth business services. The WSIB has invested in five previous GTCR sponsored funds since 1999. The proposed investment is consistent with the Board-approved 2013 private equity annual plan and model portfolio. The recommendation is based on the firm's differentiated approach, experienced team with deep industry expertise, strong performance, successful management transition, focus, and fit in the WSIB's private equity portfolio, as well as other relevant factors.

The above motion carried unanimously.

GI Partners Fund IV, L.P.

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

Mr. Masten said the fund will pursue control-oriented investments in middle-market companies with underlying asset values in sectors that are out of favor or where the company is undergoing financial distress. The proposed investment would add a new general partner relationship to the WSIB's private equity portfolio and would fall into the unidentified allocation in the Board-approved 2013 private equity annual plan. The proposed investment is consistent with the model portfolio. The recommendation is based on the firm's solid overall investment performance and superior performance in the current North American strategy; differentiated, value-oriented approach to investing in asset-intensive businesses; experienced, cohesive team; and attractive fit in the WSIB's private equity portfolio, as well as other relevant factors.

The above motion carried unanimously.

Lime Rock Resources Fund III-A, L.P.

Mr. Masten moved that the Board invest $100 million, plus fees and expenses, in Lime Rock Resources Fund III-A, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Vice Chair Frost seconded the motion.

Mr. Masten said the fund will invest in low-cost, conventional, producing oil and gas fields with a high component of proved, developed, and producing reserves in the United States. The proposed investment fits in the upstream segment of the energy industry in the WSIB's tangible assets framework. The recommendation is based on the firm's experienced, cohesive team; low cost, income-driven investment approach; impressive increases in production; investment discipline through multiple cycles; value creation plans; cost reduction strategies; clear hedging strategy; and judicious use of leverage, as well as other relevant factors.

Ms. Holman asked if, after further due diligence, the deal would come back before the Board. Mr. Masten described that staff do further negotiation on terms and fees to improve the deal, but it would not be brought again to the Board. Mr. Masten said the company improves fields by cleaning and restoring wells to pump in a low cost manner that makes good money.

The above motion carried, with Ms. Williams voting no.

[The Board recessed at 11:51 a.m., and reconvened in open session at 12:22 p.m.]

ADMINISTRATIVE COMMITTEE REPORT

Assistant Attorney General's Report

Ms. Lobdell had nothing to report

2013-2015 Budget Update

Chair McIntire reported the Fiscal Year 2013 appropriated budget has a balance of $1.1 million (7.8 percent savings), and the non-appropriated budget has a balance of $26 million (7.4 percent savings). WSIB received a biennial appropriation from the Legislature totaling $36 million. This includes a $3.1 million increase to hire 12 new positions to be phased in starting November 2013, and $2.4 million for compensation increases.

Board Adopted Housekeeping Policy Review

Chair McIntire said the Committee reviewed housekeeping changes to the following policies: Board Charter 1.00.110, Administrative Committee Charter 1.00.120, and Executive Director Performance Evaluation 2.00.220.

Chair McIntire moved that the Board approve the housekeeping revisions to policies 1.00.110, 1.00.120, and 2.00.220. Mr. Ragan seconded, and the motion carried unanimously.

Space Planning

Chair McIntire reported that, at the September Audit Committee meeting, it was noted the Administrative Committee Charter includes a directive for the Committee to provide the Board with recommendations on the suitability of office locations.

Chair McIntire moved that the Board approve the Seattle office as a suitable additional location for conducting WSIB business. Mr. Ragan seconded, and the motion carried unanimously.

Chair McIntire encouraged any Board member who had not used the Seattle office (located in Two Union Square) to do so.

Lastly, he reported the Committee discussed the Executive Director and Executive Assistant compensation, which will be brought for full Board discussion during the executive session portion later in the agenda.

INDUSTRIAL REAL ESTATE OPERATING COMPANY PROCEDURES

Mr. Draper introduced the presenters for the discussion on industrial real estate property.

Mr. Cushing shared information on Alere Property's Group, which does acquisition, development, and management of industrial properties in Southern California. Alere's primary goal is to create long-term value appreciation and development of high-quality buildings. He discussed the marketplace demands, geographic locations of buildings, and provided an overview of Alere Property Group. He discussed its portfolio composition, concentration by marketplace, and preferred building characteristics. In response to Chair McIntire's questions, Mr. Cushing said he believes California will continue into the future similarly to how it does now, with more redevelopment of older buildings, and the trend in companies gravitating toward larger facilities. In response to Messrs. Masten's and Nierenberg's questions, Mr. Cushing said Alere has looked into using the large rooftops to create solar energy; however, it can create potential issues with tenants. He said their buildings are either seismically designed to current building code standards or have well-managed upgrades.

Mr. Luecht shared ML Realty's mission statement. He said ML Realty has been partnered with the WSIB since 2002. They are headquartered in Chicago, with offices in Dallas. He discussed ML Realty's portfolio and described why their marketplace locations are attractive. He discussed how the marketplaces have fared since the market downturn.

Mr. Begier discussed Seagis' company background, and the backgrounds of himself and Mr. Lee. He said Seagis invests in markets along the Eastern Seaboard with an emphasis on South Florida, Northern New Jersey, and the New York Metro area. He discussed the relationships each of the markets has with the transportation industry. He described Seagis' portfolio, and the characteristics of each of the marketplace locations and sub-markets. Mr. Nierenberg noted there is a lot of unused industrial land around Newark. Mr. Begier shared his observations relating to the development and clean-up of that area.

Mr. de la Garza discussed CPA, a company that is exclusively involved in industrial real estate in Mexico. He described CPA's portfolio, growth, and operational aspects that are unique to doing business in Mexico, and its partnership with the WSIB. He discussed key marketplaces: their population, key market drivers, tenant characteristics, differences among the marketplaces, and investment advantages. He said Mexico City is the busiest marketplace for them at this time.

Mr. Sacks noted the base business model is focused on long-term tenant relationships, and not a lot of portfolio turnover. Chair McIntire asked about the longevity of the building structure and if they are depreciated over time or torn down. Mr. de la Garza responded the buildings in CPA's portfolio are useful over at least 20-30 years. He said Mexico is increasingly competitive. With 5 to 6 recent IPOs, a lot of money is going into industrial real estate and land it is becoming expensive, which is a challenge.
Mr. Cushing noted buildings in Alere's portfolio are built to last 50 years. He commented on the underwriting process. Representative Santos asked about the growth opportunities within the firms, given that Alere, ML Realty, and Seagis are newer companies. Mr. Cushing said Alere focuses on the demographics of population growth. Mr. Luecht said the alignment of interests that come along with being a real estate operating company (REOC) with a long-term capital source allows for increased acquisition opportunities. Mr. Begier said the ownership demographics of the various marketplaces creates opportunities.

Chair McIntire thanked each of the presenters for the work they do on behalf of the WSIB. He noted it is helpful to hear from them to get a feel for the magnitude of issues the REOCs deal with.

[Mr. Seely left at 1:38 p.m.]
[The Board recessed at 1:38 p.m., and reconvened in open session at 1:51 p.m.]

COST EFFECTIVENESS MEASUREMENT ANNUAL REPORT
Ms. MacIntosh thanked the Board for its past support and the opportunity to present. She described CEM's database, universe, and peer groups. She said the most valuable comparison for WSIB is to a custom peer group. She reviewed the WSIB's 5-year total return of 2.6 percent, which was below the U.S. and peer medians of 3.6 and 3.1 percent respectively. Ms. Whitmarsh pointed out that CEM uses a calendar, versus fiscal year. Ms. MacIntosh acknowledged there are benchmark differences which make the comparisons problematic.

She said the benchmark costs analysis suggests that WSIB was low cost by 17.7 bps in 2012. This is an estimate of what WSIB's cost would be given the WSIB's actual asset mix and the median costs that its peers pay for similar services. It represents what cost peers would incur if they had the WSIB's actual asset mix.

She said there was a savings of 17.2 bps due to lower cost implementation style (10 bps) and WSIB paying less for similar services (7.2 bps). She broke down the savings based on lower use of fund of funds, less external active management and lower cost passive management, higher use of overlays, internal and external management costs, oversight, operational, and other costs.

Board members discussed the survey and level of interpretation needed to understand the results. Representative Santos questioned the value in the results of the CEM's survey, given it is not an apples-to-apples comparison that is easily comprehendible. Ms. Whitmarsh noted the 5-year time period results reported in the survey was a difficult time for the WSIB given its asset mix. She noted it is the same methodology CEM has used in past years, only the results are not as favorable for the WSIB over this time period.

Mr. Sacks said he would be interested to learn why the WSIB was so much different than others' performance in private equity over that 5-year period. Mr. Bruebaker said WSIB was being compared with very large institutional investors that use public equity benchmarks for their private equity allocations. He pointed out the short time period captured, and the various benchmarks compared within the survey makes comparisons not really comparable.

Ms. MacIntosh noted difficulties in providing the cost effectiveness' results using a comparable standard among funds. Mr. Nierenberg said it would be more useful for the WSIB to benchmark against itself over past time periods. Ms. Williams said she would appreciate more context around the data so that she can fully inform any constituent who asks her about the report.

QUARTERLY REPORTS
Commingled Trust Fund Performance Update

Mr. Bruebaker reported it was not a good quarter for investment returns, but the fiscal year investment results were excellent. The CTF was up 0.35 percent for the three months ended June 30, 2013, and up 12.36 percent for the fiscal year. The equity markets are up 7.0 percent since the quarter ended June 30, 2013. The since inception return for the CTF is 8.61 percent as of June 30, 2013.

For implementation value added, Mr. Bruebaker said the allocation decision hurt performance by being underweight private equity by 197 bps, and the manager decision hurt within fixed income by 34 bps, although every other time period had positive performance for manager decisions. During the current quarter, private equity underperformed 193 bps relative to manager decisions.

Mr. Sacks noted performance appears to beat the benchmark due to manager decisions but allocation decisions are not faring as well. Mr. Bruebaker said the results are just a snapshot in time, and the results are tied to benchmarks and impacted by the lag in reporting private markets performance.

OTHER ITEMS
2014 Meeting Schedule
Ms. Whitmarsh presented the 2014 meeting schedule, noting the Board meets the third Thursday of every month except August; and meets July 15-17, 2004, for its annual planning session.

> **Vice Chair Frost moved that the Board approve the meeting schedule for 2014. Mr. Ragan 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 until about 3:15 p.m., at which time the Board would reconvene in open session.

[The Board went into executive session at 2:39 p.m.]

Quarterly Commingled Trust Fund Board Risk Report
Annual Succession Planning Discussion
Executive Director and Executive Assistant Compensation
Non-Voting Board Member Performance Review

[Messrs. Longbrake, Nakahara, and Nierenberg left at 3:25 p.m.]
[Mr. Fox left at 3:29 p.m.]
[Representative Santos left at 3:32 p.m.]
[The Board reconvened in open session at 3:38 p.m.]

> **Chair McIntire moved that the Board approve the compensation levels for the Executive Director and Executive Assistant, as discussed. Senator Nelson seconded, and the motion carried unanimously.**

There was no further business to come before the Board, and the meeting adjourned at 3:49 p.m.

James L. McIntire
Chair

ATTEST

Theresa J. Whitmarsh
Executive Director