

WASHINGTON STATE INVESTMENT BOARD
Board Meeting Minutes
December 19, 2013

The Washington State Investment Board met in open session at 9:39 a.m. in the boardroom at 2100 Evergreen Park Drive SW, Olympia, Washington.

Present: Treasurer Jim McIntire, Chair
Marcie Frost, Vice Chair
Kelly Fox
Arlista Holman
Bill Longbrake
George Masten
Richard Muhlebach
Bob Nakahara
David Nierenberg
Mike Ragan
Joel Sacks
Representative Sharon Tomiko Santos
Jeff Seely (teleconferenced)

Absent: Senator Sharon Nelson

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
Diana Will, Senior Investment Officer – Tangible Assets
Kristi Haines, Executive Assistant

Mary Lobdell, 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.

[Representative Santos was in attendance via teleconference.]

COMMITTEE ASSIGNMENTS

Chair McIntire said his proposed Committee assignments appoint Mr. Sacks as Audit Committee Chair, Mr. Fox as Public Markets Committee Chair, and assigns Ms. Holman to the Public Markets Committee.

Mr. Ragan moved that the Board approve the Chair's recommendation for Committee assignments. Mr. Masten seconded, and the motion carried unanimously.

ADOPTION OF THE NOVEMBER 21, 2013, MINUTES

Mr. Fox moved to adopt the November 21, 2013, minutes. Mr. Sacks seconded, and the motion carried unanimously.

PUBLIC COMMENT

There was no public comment.

EXECUTIVE DIRECTOR'S REPORT

Ms. Whitmarsh said the Public Markets Committee meets on January 7. The Private Markets Committee will discuss the 2014 Private Markets Annual Plan at its January 9 meeting, to be held at the Education Services District facility in Tumwater.

She noted that Board turnover continues, with today being Mr. Ragan's last meeting and Ms. Williams departing after the December 3 Audit Committee meeting. She reported on conversations held with Chair McIntire and appointing authorities regarding replacement Board members. Both Superintendent Dorn and Mr. Devereux, Washington Federation of State Employees, are working to get nominees forwarded before the end of the year.

Ms. Whitmarsh detailed an investment made within the Real Estate Emerging Markets Fund of Funds' Program in Avenida Colombia Real Estate Fund I.

For staffing, Investment Officers have been hired within the Risk Management and Asset Allocation unit, as well as the Tangible Assets unit. Those staff will be introduced after they begin in January. Additionally, Dorota Czub transferred from Investment Officer-Fixed Income to Investment Officer-Tangible Assets.

[Representative Santos arrived in person at 9:45 a.m.]

Ms. Whitmarsh said staff is preparing materials for current Board members and new appointees who will go through the Senate confirmation process in the coming legislative session. Regarding the proposed START legislation, WSIB has received a number of inquiries and provided technical expertise. This legislation would create a voluntary retirement plan for citizens who do not have access to a 401K plan through employers. Ms. Whitmarsh said she does not expect the Board would need to take a position on the legislation.

At Mr. Masten's request, staff sent a letter to the Securities and Exchange Commission in support of rulemaking being considered relating to CEO pay ratios, as mandated by the Dodd-Frank Act. In other corporate governance activities, Ms. Whitmarsh said she and Mr. Nierenberg joined the Millstein Center in a conversation involving like-minded institutional investors interested in reframing the corporate governance debate and creating performance metrics to align interests.

[Mr. Longbrake arrived at 9:48 a.m.]

Mr. Nierenberg said the Millstein meeting included leading pension funds from around North America interested in redirecting corporate governance away from its current "box checking"-type compliance and toward issues that would more materially benefit our plan. Specifically, to identify very large companies (in terms of capitalization) with disappointing returns over a longer period and work with them on increasing their growth rates and

creating employment opportunities. He said it was a great conversation, and the level of interest and enthusiasm by other institutional investors was encouraging. He noted that Ms. Whitmarsh's leadership was important as she has an influential role with peers.

Within Operations, Ms. Whitmarsh said John Lynch, WSIB Contracts Manager, had developed and trained staff on the Attorney General's public records' best practices. Staff also continues to achieve efficiencies in streamlining processes by applying LEAN techniques. Recent projects include automated reconciliation of monitoring alternative assets and unfunded commitments and a pilot on-line booking tool with built-in policy and approvals that would allow staff to arrange its own travel.

She noted staff commenced a search for an emerging markets active equity manager on November 25, and a quiet period is in place. Members should refer any inquiries to her or Mr. Lynch.

ADMINISTRATIVE COMMITTEE REPORT

Chair McIntire reported the Administrative Committee met earlier this morning.

2014 Recommended Board Member Education List

Chair McIntire said he encourages members to further their exposure to the work of the WSIB and peers. He said the Administrative Committee reviewed the 2014 Board Education List at its November meeting and recommended a change to the list to reflect the Council of Institutional Investors' meetings are recommended for all trustees. Also, since then, staff updated the list and included the Trustee Educational Seminar dates for the National Conference on Public Employees Retirement System.

Chair McIntire moved that the Board approve the 2014 Recommended Board Education List. Mr. Ragan seconded the motion.

Chair McIntire said the International Centre for Pension Management's Board Effectiveness Program (ICPM BEP) was removed from the 2014 list because it conflicted with the April Public and Private Markets Committee meetings. He believes that program may be of value to new members. Mr. Fox said he attended the December program and believes it would be good not only for new members, but any Board member. He described it was an intense 5-day program, which included 35 attendees from eight countries. There were four Washington State participants attending the December session, and he felt the State's pension policies were well-represented through debates. Mr. Sacks agreed and said it is very good training; however, the April session may be too soon for a new Board member—depending on their level of pension expertise. Chair McIntire said he believes it would be useful to include the ICPM BEP on the 2014 list. Vice Chair Frost agreed, noting the program included discussions on Board turnover and diversity.

Treasurer McIntire moved to amend the above motion to include the ICPM BEP. Vice Chair Frost seconded , and the motion carried unanimously.

Total Allocation Portfolio (TAP) Ad Hoc Committee

Chair McIntire reported the Administrative Committee discussed forming an *ad hoc* committee to examine the liquidity, policy, and risk implications of the growth of assets in

the TAP. Chair McIntire said he proposed that he, Mr. Masten, Vice Chair Frost, and Mr. Fox serve on the TAP *ad hoc* Committee.

Chair McIntire moved that the Board form an *ad hoc* committee to examine the TAP issues discussed at the July 2013 Board planning session. Vice Chair Frost seconded, and the motion carried unanimously.

Executive Session

Chair McIntire said the Committee held an executive session to review applications for the open non-voting Board member positions and receive reports from Assistant Attorney General (AAG) Lobdell on an outstanding litigation item and the 2013 Year in Review. Both AAG items would be presented in executive session to the full Board later on the agenda.

AUDIT COMMITTEE REPORT

Mr. Masten reported the Audit Committee met December 3 to review an internal audit report on the Board's Business Continuity Plan. There were no audit recommendations included in the report. The Committee received updates on the status of prior audit recommendations, annual internal audit plan, Board-adopted policy database controls, and quarterly investment referrals.

The Committee reviewed the Board's Global Proxy Voting Guidelines Policy 2.05.200 and is proposing revisions related to election of directors, ratification of auditors, compensation, and shareholder initiatives. Also with regard to proxy voting, the Committee is proposing a revision to the Board's Audit Committee Charter Policy 1.00.130, calling for a review of the proxy voting policy and guidelines to be conducted every three years, instead of annually.

Mr. Masten moved that the Board approve revisions to the Audit Committee Charter Policy 1.00.130 and the Global Proxy Voting Guidelines Policy 2.05.200. Mr. Ragan seconded, and the motion carried unanimously.

Fiscal Year 2013 Independent Financial Auditors' Reports

Mr. Masten said the Committee received and reviewed the Fiscal Year 2013 Independent Financial Auditors' Reports for the five sets of WSIB-prepared financial statements. All reports concluded the statements were presented fairly, with no material misstatements identified. These reports are a part of the WSIB's annual report, which the Board must adopt.

Mr. Masten moved that the Board approve the Fiscal Year 2013 Independent Financial Auditors' Reports. Mr. Ragan seconded, and the motion carried unanimously.

Mr. Masten moved that the Board approve the 2013 Annual Report in its entirety. Vice Chair Frost seconded, and the motion carried unanimously.

Mr. Masten said the Committee met privately with the independent financial statement auditors in executive session. Also in executive session, Internal Audit presented a report

on the Board's real estate intermediaries and operating companies. There were two audit recommendations staff is following up on. If members have questions, the Board would need to go into executive session to discuss. Ms. Whitmarsh said if members have questions, those could be raised during the Real Estate Annual Plan executive session discussion.

Mr. Masten said that Ms. Williams was recognized for her perspective and service on the Board over the last three years.

RECOGNITION

Chair McIntire recognized Mr. Ragan for his six years of Board service. Mr. Ragan said it has been an honor and pleasure to serve on the Board and to work with the staff of such a highly recognized and innovative organization.

EXECUTIVE SESSION

Chair McIntire announced the Board would go into executive session to discuss litigation or potential litigation with legal counsel since public knowledge regarding the discussion is likely to result in an adverse legal or financial consequence to the WSIB, and 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 throughout the majority of the remaining agenda, and the Board would reconvene in open session to take action on the items discussed during the executive session and adjourn.

Mr. Masten requested a short break prior to the executive session.

[The Board took a brief recess at 10:13 a.m., and reconvened in executive session at 10:23 a.m.]

Assistant Attorney General's Report

Litigation Discussion

2013 Year in Review

Tangible Assets Annual Plan

[The Board reconvened in open session at 12:45 p.m.]

Mr. Masten moved that the Board approve the 2014 Tangible Assets Annual Plan that was presented and discussed in executive session. Mr. Ragan seconded, and the motion carried unanimously.

Representative Santos noted that she raised some questions regarding some risk definitions and parameters presented with the Tangible Assets Plan that she would like to see addressed with the Board.

The above motion carried unanimously.

POLICY REVISION

Tangible Assets Investments Policy 2.10.900

Mr. Masten moved that the Board adopted the proposed revisions to the Tangible Assets Investment Policy 2.10.900. Mr. Ragan seconded, and the motion carried unanimously.

Assistant Attorney General's Report

Litigation Discussion

Vice Chair Frost moved that the Board approve the proposed settlement in the litigation discussed in executive session. Mr. Ragan seconded, and the motion carried unanimously.

Chair McIntire announced the Board would go back into executive session following a short break. The executive session is required for the same purpose as previously announced.

[Mr. Seely was no longer in attendance at 12:48 p.m.]

[The Board took a recess at 12:48 p.m., and reconvened in executive session at 1:05 p.m.]

Real Estate Annual Plan

[Mr. Fox left at 1:15 p.m., and returned at 3:13 p.m.]

[Vice Chair Frost left at 2:10 p.m.]

[Mr. Nakahara left at 3:29 p.m.]

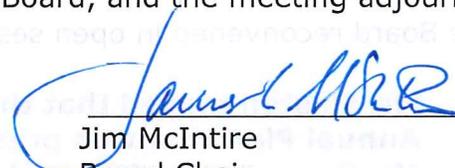
[The Board reconvened in open session at 4:05 p.m.]

Mr. Masten moved that the Board approve the 2014 Real Estate Annual Plan that was presented and discussed in executive session. Mr. Ragan seconded, and the motion carried unanimously.

OTHER ITEMS

Ms. Whitmarsh thanked Mr. Ragan for his dedicated service.

There was no further business to come before the Board, and the meeting adjourned at 4:06 p.m.



Jim McIntire
Board Chair

ATTEST



Theresa J. Whitmarsh
Executive Director