WASHINGTON STATE INVESTMENT BOARD
Board Meeting Minutes
February 20, 2014

The Washington State Investment Board met in open session at 9:42 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 Judy Kuschel George Masten Stephen Miller Richard Muhlebach Bob Nakahara David Nierenberg (teleconferenced) Joel Sacks Jeff Seely
Absent:	Bill Longbrake Senator Sharon Nelson 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 Phil Paroian, Senior Investment Officer – Public Equity Tom Ruggels, Senior Investment Officer – Private Equity Diana Will, Senior Investment Officer – Tangibles Kristi Haines, Executive Assistant Dawn Cortez, Attorney General's Office Bill Song, Song Mondress PLLC

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

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

OATH OF OFFICE

Chair McIntire administered the oath of office to Ms. Judy Kuschel, newly appointed Board member, who fills the unexpired term of the active Public Employees' Retirement System member position effective February 3, 2014, until December 31, 2014. Ms. Kuschel provided an overview of her background and experience.

COMMITTEE ASSIGNMENT
Chair McIntire said he would like to appoint Ms. Kuschel to the Private Markets Committee. He encouraged Ms. Kuschel to attend as many of the Committee meetings as possible and use other members as resources for her orientation to the Board.

> **Chair McIntire moved that the Board approve his recommendation to assign Ms. Judy Kuschel to the Private Markets Committee meeting. Mr. Masten seconded, and the motion carried unanimously.**

ADOPTION OF THE JANUARY 16, 2014, MEETING MINUTES

> **Vice Chair Frost moved to adopt the January 16, 2014, meeting minutes. Mr. Sacks seconded the motion.**
>
> **Mr. Masten moved to amend the minutes to insert the following sentence within the *Alternative Passive Investing and Public Markets Equity – Retirement Fund Policy 2.10.100 Revision* discussion, first paragraph following the motion, after the third sentence: "Based on an initial funding of $1.5 billion, estimated costs in the first year including transaction costs to convert from market-cap-weighted to fundamental-weighted are estimated to be approximately $2.25 million (15 bps). On an on-going basis, estimated costs (including ongoing rebalancing transaction costs, management fees, and licensing fees) should be approximately $1.5 to $1.8 million (10-12 bps)."**
>
> **Vice Chair Frost seconded the motion to amend the minutes.**

Mr. Masten said he offered the amendment because he asked staff to provide the costs in dollars instead of basis points (bps), and that he planned to refer back to it at a later date.

> **The motion to amend the minutes carried unanimously.**

PUBLIC COMMENT
There was no public comment.

EXECUTIVE DIRECTOR'S REPORT
Ms. Whitmarsh reported the March Public and Private Markets Committee meetings were cancelled. The March Administrative Committee and Board meetings will likely also be cancelled. The Audit Committee will meet on March 4. She reported staff had extended two transition pool managers, BlackRock and Russell, as their contracts were set to expire March 31. She gave an update on the Fisher Lynch Co-Investment, that as of September 30, 2013, was valued at 1.3x net multiple of invested capital and had a 16 percent net internal rate of return.

New staff members were introduced: Ken Baldwin, Information Technology Data Steward; Dufie Addo, Investment Officer – Risk and Asset Allocation; and Amy Darilek, Human Resource Consultant.

Ms. Whitmarsh reported the 2014 Legislative Session had been relatively quiet for the WSIB, with one piece of legislation moving forward that would have the WSIB investing the Washington State Opportunity Scholarship fund. Chair McIntire agreed it had been a quiet session. He said the House and Senate were working to bring minimal budget revisions.

Ms. Whitmarsh said there was a joint press release with the Attorney General's Office (AGO) relating to the recovery of $31 million from Lehman Brothers, Inc. Within Operations, Hamilton Lane will report on the results of the completed private equity compliance testing at the March Audit Committee meeting. The Lean team is making progress on its review of Portfolio Administration, with an automated reconciliation tool being put into place. There are three open procurements at this time relating to Portfolio Verification/Shadow Accounting, Emerging Markets Managers, and Index-related Investment Management. Any vendors contacting Board members directly need to be referred to staff as a quiet period is in effect.

PRIVATE MARKETS COMMITTEE REPORT
Mr. Masten reported the Private Markets Committee met on February 6 to consider two private equity and two tangible assets investment recommendations.

TPG Capital Partners Strategic Account, L.P.

Mr. Masten moved that the Board invest up to $600 million, plus fees and expenses, in TPG Capital Partners Strategic Account, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Vice Chair Frost seconded the motion.

Mr. Masten reported the fund, with an expected size of $2 billion, will invest in non-auction or limited auction situations in its five sectors of focus: consumer/retail, technology/media, healthcare/pharma, industrials, and energy. TPG has been a long-term investment partner of the WSIB. Since 2000, the Board has committed in excess of $2 billion to seven TPG-sponsored vehicles. The proposed investment is consistent with the Board-approved 2014 private equity annual plan and the model portfolio. He said the recommendation is based on TPG's return to strong performance after strategy drift, global platform and network with industry domain expertise, experienced team with extensive operational capability, attractive terms, and fit in the WSIB's private equity portfolio, as well as other relevant factors.

The above motion carried unanimously.

Permira V, L.P.

Mr. Masten moved that the Board invest up to €320 million, plus fees and expenses, in Permira V, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Vice Chair Frost seconded the motion.

Mr. Masten reported the fund, with a target size of €5 billion, will invest primarily in mid- to large-cap European buyouts with exposure to fast-growing global markets focusing on the consumer; industrials; financial services; healthcare; and telecommunication, media, and technology sectors. The WSIB previously invested in Permira IV in 2006. The proposed investment is consistent with the Board-approved 2014 private equity annual plan and model portfolio. He said the recommendation is based on the firm's Europe-focused strategy with global investment mandate, strong historical performance, thematic sector approach, well-defined and streamlined investment process, and disciplined approach to structuring capital, as well as other relevant factors.

The above motion carried unanimously.

ACM Permanent Crops, LLC

Mr. Masten moved that the Board invest up to $50 million, plus fees and expenses, in ACM Permanent Crops, LLC, subject to continuing due diligence and final negotiation of terms and conditions. Vice Chair Frost seconded the motion.

Mr. Masten reported the fund will make investments in permanent cropland and related midstream assets primarily in California, Oregon, and Washington. WSIB will own 20 percent of the equity assuming the fund's target size of $250 million, with Agriculture Capital Management (ACM), as fund manager, committing 1 percent. The proposed investment is consistent with the Board-approved 2014 tangible assets annual plan. He said the recommendation is based on the firm's experienced team with strong operating track record and economies of scale, vertically-integrated operations, emphasis on risk management, exposure to and expertise in organic produce, proprietary deal flow, and emphasis on environmental, social, and corporate governance considerations, as well as other relevant factors.

The above motion carried, with Mr. Sacks abstaining from the vote due to a potential conflict.

Steelhead Midstream, LLC

Mr. Masten moved that the Board invest up to $250 million, plus fees and expenses, in Steelhead Midstream, LLC, subject to continuing due diligence and final negotiation of terms and conditions.

Mr. Masten reported that Steelhead Midstream will invest in approximately 7 to 10 agriculture-related midstream assets primarily in the U.S. This will be a separate account structure where the WSIB will own the majority of the equity, with Wood Creek Capital Management, LLC, as fund general partner and manager, owning the rest. The proposed investment is consistent with the Board-approved 2014 tangible assets annual plan. He said the recommendation is based on the firm's separate account structure, niche strategy in an underdeveloped area of the portfolio, income-driven investment philosophy, strong fundamental research, experienced and cohesive team, and operation of the assets, as well as other relevant factors.

Vice Chair Frost seconded the motion.

Mr. Masten added that this is a first-time fund.

The above motion carried unanimously.

ADMINISTRATIVE COMMITTEE REPORT

Chair McIntire reported the Administrative Committee met earlier this morning.

Strategic Plan

Ms. Whitmarsh said the Board adopted a very involved Strategic Plan for 2013 with multi-year projects; therefore, staff's proposed initiatives for 2014 are limited to a few. She reviewed the strategic framework of: Value—what WSIB will do to ensure it delivers exception returns; Support—how WSIB conducts itself in the marketplace and with stakeholders so it receives support to fulfill its mission; and Capacity—how to build the WSIB into an organization that can execute its plans and programs. This framework rests upon a skillful Board, which provides guidance, and checks and balances to staff and consultants. Ms. Whitmarsh said the Board is heavily invested in its education, which will be a major emphasis in 2014 due to the new membership.

Ms. Whitmarsh reviewed the status of the 2013 completed projects, including the Commingled Trust Fund (CTF) asset allocation study and recommendation; implementation of the annual asset class plans; private markets valuation review and refinement; Lean process improvements on travel, private equity partner duplicative work, and staff training on Lean processes; new employee orientation revamp; and improving mobile tools. A communications plan (the WSIB story) was put into place, the WSIB gained legislative support for its 2013-2015 budget and increased its profile, and staff participated in a joint transparency project with the Department of Retirement Systems (DRS) related to portfolio holdings. The Board worked with appointing authorities on membership, education of new members, and participated in education sessions designed for timely decisions on asset allocation and investment decisions.

Ms. Whitmarsh said 2013 projects still underway include the CTF performance contribution and attribution analysis; investment cost analysis of methodologies; real estate governance and internal controls; book of record conversion; Seattle office space planning due to expanding staff; leadership development for all staff; corporate governance focused on enhancing performance; and transitioning new Board members.

The proposed new projects for 2014 will be to implement the CTF asset allocation decision, review the ability for third party capital to invest in non-qualified assets (private markets), implement the 2014 asset class plans, and explore incorporating sustainability measures into risk analysis. Staff also plans to look at climate risk, which presents a challenge in how to measure it to apply it within the investment decision making process. Staff will research options for discussion at the July Board meeting. In response to Mr. Sacks' question, Ms. Whitmarsh said that a lot of other institutional investors are looking at the same issue, which is resulting in development of performance measurements and metrics. She said that industry is ahead of public entities in this area, and is creating business strategies—particularly in tangible assets. Chair McIntire said this is also true for real estate. He said the WSIB should examine what its partners are doing and how they could assist in this area.

Ms. Whitmarsh said other 2014 projects include: succession planning, reviewing resource needs in building the 2015-2017 biennial budget, the Investment Officer biennial compensation survey, leveraging WSIB's international reputation, a joint project on integrated pension reporting with DRS and the Office of the State Actuary, and developing a Board education strategy.

Vice Chair Frost asked if any project was ruled out due to lack of resources. Ms. Whitmarsh said nothing was set aside at the strategic level, but asset classes may have elected to postpone certain projects because a specific skillset is needed—particularly Public Equity. She said staff is growing at an acceptable level, and she would come to the Board with a resource request if there was a critical need. Staff is in the process of hiring the new FTEs granted in the last budget.

> **Chair McIntire moved that the Board approve the 2014 Strategic Plan as presented. Vice Chair Frost seconded, and the motion carried unanimously.**

Non-Voting Board Member Candidate Review

Chair McIntire asked voting members who did not participate in the Administrative Committee meeting if they felt any need to go into executive session for discussion of the non-voting Board member candidates. No member indicated a need for a closed discussion.

> **Chair McIntire moved that the Board re-appoint Jeff Seely as a non-voting Board member for a three-year term from January 1, 2014, until December 31, 2016. Vice Chair Frost seconded, and the motion carried unanimously.**

> **Chair McIntire moved that the Board re-appoint Bob Nakahara as a non-voting Board member for a three-year term from January 1, 2014, until December 31, 2016. Vice Chair Frost seconded the motion.**

Mr. Masten said he planned to vote against Mr. Nakahara's reappointment. He said his reason is not because Mr. Nakahara had not done a good job but, rather, he believes the intent of the legislation that created the WSIB was that voting members are beneficiaries and non-voting Board members are experts in the field of investments. He noted the Assistant Attorney General (AAG) had done some research and disagrees with his position. Mr. Masten pointed out that Mr. Nakahara is a beneficiary in a plan, and he believes that is a conflict. He recalled there was also a past concern that if non-voting Board members were still working there could be a conflict. He noted there had not been a non-voting member who was a beneficiary until recently. Chair McIntire asserted the AAG did not see a conflict of interest within the rules or WSIB policy. In response to Ms. Kuschel's question, Chair McIntire said Mr. Nakahara became a public employee when he went to work for the Washington Health Benefit Exchange, which is covered by the Public Employees' Retirement System. Mr. Masten pointed out the AAG review was in the form of an informal opinion.

The above motion carried, with Mr. Masten and Ms. Kuschel voting no. *[Note: It was later determined this motion actually failed.]*

Chair McIntire moved that the Board approve his recommendation to form an *ad hoc* Committee to examine the non-voting Board member appointment procedures and review the qualifications and work statement, and bring back a recommendation to the Administrative Committee. He recommended that Vice Chair Frost serve as Committee Chair, and that Messrs. Masten and Sacks serve on the Committee. Ms. Holman seconded, and the motion carried unanimously.

[The Board recessed at 10:46 a.m., and reconvened in open session at 11:07 a.m.]

EDUCATION SESSION

Fiduciary Duties

Mr. Song provided an overview of fiduciary law, noting the complexity of the types of issues that can arise. He noted that both trusteeship and fiduciary standards apply to governance of a trust fund. Mr. Song gave an overview of fiduciary standards within the Employee Retirement Income Security Act (ERISA). He said that ERISA, one of the most complex and comprehensive laws ever passed by Congress, was enacted after a ten-year study of benefit plan management and trust law principles, and resulted in a law that both elevated and unified standards of due diligence and loyalty in the context of pension and health trust fund management. He said ERISA is primarily focused on private sector plans, but its standards have impacted the regulation of government plans. The volume of federal court cases and administrative rulings by the Department of Labor and the IRS since 1974 have created a vast library of interpretive decisions applicable to fiduciary standards for pension plans, and are a resource for issues that may not have been addressed by state statutes or state court decisions. Mr. Song noted that various States, including Washington State RCW provisions governing the WSIB, now have certain standards that reflect ERISA, and state courts are increasingly looking to federal ERISA rulings for guidance regarding appropriate trust fiduciary standards.

Mr. Song described the ERISA definition of a fiduciary and that while discretionary authority or control was needed for fiduciary status regarding plan administration, any authority or control, whether or not it was discretionary, was enough to impose fiduciary status regarding asset management. This distinction reflected the importance of the standard of care imposed on those involved in investment functions. He also discussed the distinction in the RCW regarding the respective roles of voting and non-voting Board members, and that staff of the WSIB depending on their function may also be acting in a fiduciary capacity with respect to certain delegated authority.

Mr. Masten asked whether Board members would be protected if they voted against the staff and consultants if they believe it is a bad investment. Mr. Song said that fiduciary responsibility is focused on the decision-making process and procedural due diligence. Under ERISA case law, merely "rubber stamping" recommendations by staff or consultants would not be sufficient to comply with fiduciary responsibilities if objective investment expertise under the circumstances would have required that additional considerations be taken into account. As a result, plan trustees should be aware that their independent judgment may need to be brought to bear on investment recommendations. While these situations are typically rare, any decision where Board members do not follow recommendations of investment staff or consultants should be carefully memorialized to identify the fiduciary considerations, since diverging from recommendations of one's investment advisors is a situation that raises a red flag. It is also important to note that under ERISA, whether an investment loses money is not a factor in determining fiduciary compliance. Rather than using hindsight regarding an investment's performance, prudence is evaluated based on the procedural steps undertaken by fiduciaries to identify relevant considerations and thoroughly assess factors in making the investment.

Mr. Song described the broad scope of the definition of a party of interest under ERISA Section 3(14), which includes plan fiduciaries, plan employees, service providers to the plans, employers or organizations with employees or members who are participants in the plan, certain owners and subsidiaries of such entities, employees of such entities, relatives of those noted, and other potential transactional relationships. The concept of a party in interest under ERISA is to identify those persons or entities who might be viewed as "insiders" so that a transaction between such a person and the plan might not be at arms length or creates at least the appearance of a conflict of interest. The role of parties in interest in fiduciary breach analysis would be covered later in the presentation.

[Mr. Fox arrived at 11:37 a.m.]

Mr. Song then discussed the ERISA standard of care for fiduciaries regarding prudence and conflicts of interest. Mr. Song explained that the conflict of interest standard, also described as the duty of loyalty or the exclusive benefit rule, reflects the principle that if you hold assets in trust on behalf of another person, what is solely in the interest of that beneficiary has to be paramount. Board members must be disciplined to distinguish between the respective interests of the entity or group that appointed them as members, compared to the interests of WSIB participants. This means distinguishing the interests of labor unions, employers, and governmental bodies or departments versus the interests of the trust funds' participants. He noted that an important U.S. Supreme Court case regarding ERISA trust funds managed by employer and union trustees held that such trustees do not wear the hat of the entity that appointed them. In functioning as a trustee, the trustee instead is required to put on an independent trustee hat. In other words, the trustee is not the representative of the interests of the appointing entity, but is the representative of plan participants. There may be situations where those interests are co-extensive, and a trustee can take the interests of other parties into consideration as long as such considerations are collateral, and the primary basis for the decision is what is in the best interest of plan participants. Fiduciaries should recuse themselves if they are not able to make these distinctions.

He described the standard of care regarding prudence, which includes due diligence. While this standard within ERISA has an unfortunate reference to the phrase "prudent man," in actuality ERISA created what is known as the prudent investor standard. The traditional prudent man standard developed in the 1800s focused on what the reasonable man would have done to preserve principal in any investment. Each investment in a portfolio had to meet this standard, which necessarily resulted in a conservative investment allocation. Congress determined this standard was not appropriate for contemporary ERISA trust funds with complex investment strategies, including pension plans with long-term investment timelines that can accommodate increased risk balanced by an overall diversified portfolio. ERISA therefore expanded the traditional prudent man standard into that of a prudent man who is acting in like capacity and who has familiarity with the context of the assets managed, i.e. an investment expert for the type of plan at issue. This means is that if you are investing assets for large plans, the standard of care is measured against peer plans of similar size and character, and specific investments are assessed in the context of its role in the total portfolio. A prudent asset allocation for such a plan may be very different than an allocation for a small plan. Mr. Song said that the amendment of the WSIB's governing statute pursuant to his advice to reflect the ERISA prudent investor standard of care is an illustration of how ERISA standards have been a guide in updating public sector plans.

Mr. Masten said members of the Board may have differing views when they are acting in a non-Board capacity than when they are acting as Board members, so that, for example, a legislative member could potentially vote differently on the same subject depending on whether the vote was as a member of the legislature or as a Board member. Mr. Song said that the law permits persons to serve as trustees even if they may have other roles in different contexts, and if they are not acting in a fiduciary Board capacity, it is possible that legislators may have different positions on matters before them in the legislature from what their position would be if the same subject comes before the Board.

Mr. Song described the ERISA sections on prohibited transactions and liability for breach by a co-fiduciary. The prohibited transaction rules use the concept of parties in interest under ERISA to identify a very broad scope of relationships and transactions that are prohibited per se under fiduciary standards. Starting from the perspective that these transactions are generally prohibited, specific transactions can only be undertaken if they fall within express exceptions to the prohibitions. This places a responsibility on the fiduciary to be able to identify a specific exception to the fiduciary prohibitions to ensure the transaction is appropriate under fiduciary principles, rather than assuming the transaction is permissible unless a specific prohibition applies.

In response to questions, Mr. Song said the circumstances dictate what scope of assessment is required to comply with due diligence parameters. When trustees listen to professional advisors, they need to consider whether other informed investors might consider other factors in addition to what was presented. As fiduciaries, trustees are expected to apply their independent judgment to the decision-making process upon a thorough consideration of underlying issues. In the vast majority of situations trustees are protected by relying on investment advisors and staff to identify relevant issues and following their recommendations. He said that litigation cases alleging fiduciary breaches in investments usually reflect some anomaly. The simple practical rule is that if Board members feel something is not being looked at or considered, they should speak up by raising their concerns and asking questions.

In response to another question, Mr. Song said the same standard of care applies to all funds held in trusteeship by the WSIB. Asked whether conflicts might arise in commingling assets from different plans for investment purposes, Mr. Song said that in developing investment strategies, the Board should be aware it is representing different funds with different participant constituencies, and such respective funds and their participants may have differing interests. In response to a question about conflicts based on affiliations of employment and responsibility to constituents, Mr. Song said the U.S. Supreme Court ruled that serving as a fiduciary means you "take off the hat you normally wear" to put on a trustee hat, and if you cannot differentiate your roles or separate issues, members should recuse themselves.

A discussion ensued relating to potential conflicts and risks with voting members relying on advice of others. Ms. Whitmarsh said that when looking at the investment decision-making process and various roles, staff thinks about constructing a good investment decision process—starting with questions about macroeconomic concerns and strategy and education sessions planned by staff, which are prompted by question from trustees—not just the due diligence process itself. She said the general discussions brought before the Board (as opposed to individual deals) lay a good record in terms of questions in challenging staff at more macroeconomic level and it provides for an overall understanding of the economy and markets.

[The Board recessed at 12:25 p.m., and reconvened in open session at 12:43 p.m.]

> **Chair McIntire announced that Ms. Haines advised him the previous vote regarding Mr. Nakahara's appointment was 5 ayes to 2 nays, and therefore did not pass.** *[Mr. Fox was not present at the time of the vote, but had since joined the meeting.]*
>
> **Mr. Masten moved that the Board reconsider the motion to reappoint Mr. Nakahara. Vice Chair Frost seconded the motion.**

Mr. Masten said he still planned to vote no.

> **The motion to reconsider Mr. Nakahara's appointment carried, with Mr. Masten voting no.**
>
> **Vice Chair Frost moved that the Board re-appoint Bob Nakahara as a non-voting Board member for a three-year term from January 1, 2014, until December 31, 2016. Ms. Holman seconded, and the motion carried with Mr. Masten voting no.**

ATTORNEY GENERAL'S REPORT

Ms. Cortez reported on the Halliburton versus the Erica P. John Fund case, which has potential impact on the WSIB. This is a securities fraud case in which the certification of the class of plaintiffs is being heavily litigated. It is pending in front of the U.S. Supreme Court. Earlier in the month, the AAG requested that the WSIB consider joining a "friend of the court" brief along with 19 other institutional investors to be filed by the Council of Institutional Investors. In this case, Halliburton has asked the court to overturn a long-standing rule, which allows a group of investors that purchase the same securities to prove reliance in a securities fraud case by showing a "fraud upon the market," rather than having to show that the individual relied upon any misrepresentation that was made. This rule is based on the concept that the U.S. market is considered to be a reliable market in which prices are determined based upon information released by a company. The courts have acknowledged that most institutional investors engage in passive management through indexing and would not be able to prove individual reliance. Should the court overturn the concept and require that investors show individual reliance, investors such as WSIB would not be able to bring cases and recover losses based on misrepresentations, as it did in recovering $31 million in the Lehman litigation. The AGO has already joined a related brief filed by the Oregon State Attorney General.

Treasurer McIntire questioned if cases cannot be brought by passive investors, should the WSIB even invest that way given its fiduciary duty? Ms. Cortez said that is certainly one of the concerns related to this decision.

PUBLIC EQUITY ANNUAL PERFORMANCE DISCUSSION

Mr. Paroian said 2013 was a surprisingly good year in the equity markets. The U.S. and developed world equity markets returned 33.4 and 23.9 percent, respectively. Emerging markets were down by about 2 percent. He noted that value and growth performed in line, and small-cap did better than large-cap stocks.

Mr. Paroian reviewed major country returns for both developed and emerging markets. Some of the strongest performers in the developed markets were those looking the worst at the end of 2012, such as Greece and Spain. Within emerging markets, returns varied. Brazil, Thailand, and Turkey's economies struggled. Within sectors, commodities, materials, and energy struggled while consumer discretionary and healthcare performed the best.

Mr. Paroian reviewed the CTF equity performance as of the end of 2013 compared to as of the end of 2007 net of fees and expenses. There have been a lot of changes to the program over the past 6 years. While the changes took some time, there are new managers and a new structure in place and he remains very encouraged about where the program was at the end of 2013. The one- and three-year numbers show added value, with the 5- and 10-year returns about even, but he hopes those will become positive soon. He said that adding 30-40 bps would be a sign the portfolio is doing quite well, and can make a big difference for the CTF.

For the U.S. equity passively managed public equity, performance has matched the benchmark for the 1-, 3-, and 5-year periods. Before the 5-year period, there was some active management and the 10-year and older periods show negative performance. In the non-U.S. equity mandates, most of the assets are passively managed and successfully tracking the benchmark, while the one active manager retained is adding value, so overall this part of the portfolio is positive.

Mr. Paroian said the new active global equity program is performing well with encouraging results. All managers except one have been positive since inception. The active emerging markets program did not perform as well, with long-term managers struggling. A passive mandate was added to that program and a search was launched for new managers.

Mr. Paroian reported on performance of the Plans 3, Deferred Compensation Program, and Judicial Retirement Account, within the Total Allocation Portfolio, socially responsible investments, equity fund, and target date investments. He said some changes were made to address performance challenges within the target date funds. He also discussed Public Equity's oversight of the 11 passive mandates for the Labor and Industries' funds, Guaranteed Education Tuition, Permanent Funds, and Developmental Disabilities Endowment Fund. He said these mandates are all performing in-line with expectations, with the exception of the Common School Fund, which employs a strategy to increase dividend yield versus the benchmark. He noted higher dividend paying stocks underperformed in 2013. The WSIB is in discussions with the manager about how it manages its internal tracking error versus the benchmark.

Mr. Paroian said for 2014, an overall slow growth recovery seems most likely but there are potential problems within the U.S., Europe, Japan, China, and other emerging markets. He anticipates volatility and single-digit returns.

In response to Ms. Holman's questions about whether China is considered a developed or emerging market and whether the economies of Japan and China affect each other, Mr. Paroian described the various benchmarks and different criteria used for establishing countries as "emerging" markets. He said the criteria are not just based on wealth or size of economy, but also on the workings of its capital markets, such as whether the currency is fully floating and tradable. He anticipates a slowdown of growth in China, from 8-9 percent to 6-7 percent, and noted that any slowdown in China would probably have negative effects for the Japanese economy.

QUARTERLY PERFORMANCE UPDATE

Commingled Trust Fund

Mr. Bruebaker reported the period ended December 31, 2013, was a great quarter for investment returns, as well as the one-year period. The CTF earned in excess of 8 percent in every single time period, which had not happened since December 2007. The CTF was up 4.6 percent for the quarter, and 14.6 percent for the one-year period. The equity markets are down about 41 bps since December 31. The since inception return for the CTF is 8.84 percent as of December 31.

Mr. Bruebaker reported on the quarterly allocation versus manager decision performance. He said the portfolio was not harmed by allocation decisions. It was underweight in fixed income, which added 12 bps; and slightly overweight in public equity, which added about 5 bps. Manager decisions lost about 32 bps, with 54 bps lost by the private equity managers. Mr. Bruebaker described how the allocation decision relates to the targets set within Board policy for each asset class. If the allocation was exactly at its target rate for the entire quarter, the allocation impact would be 0. However, there is always a little difference between the target and where the allocation actually is. For the manager decision, staff looks at the performance of managers collectively against a benchmark. For this quarter, managers did not perform as well as their collective benchmark. He explained that when the market has a good year in public equity, private equity lags in terms of reporting so they underperform. He said, for this quarter, that underperformance was off-set by fixed income and real estate, which outperformed their benchmarks by 5 bps and 13 bps, respectively, which netted together in a loss of 32 bps.

Mr. Bruebaker said the investment portfolios continue to be positioned well for the long-run. The WSIB's 10-year investment performance against the 70 largest U.S. pension funds is in the top decile. WSIB had $98 billion in assets as of December 31, which is a record amount.

OTHER ITEMS

There was no further business to come before the Board, and the meeting adjourned at 1:35 p.m.

____
Jim McIntire
Board Chair

ATTEST

____
Theresa J. Whitmarsh
Executive Director