WASHINGTON STATE INVESTMENT BOARD
Board Meeting Minutes
June 19, 2014

The Washington State Investment Board met in open session at 9:35 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 Bill Longbrake George Masten Stephen Miller Richard Muhlebach Bob Nakahara Senator Sharon Nelson Representative Timm Ormsby David Nierenberg Joel Sacks
Absent:	Jeff Seely
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 Tripp Gantt, Assistant Senior Investment Officer – Real Estate Kristi Haines, Executive Assistant Mary Lobdell, Attorney General's Office Michael Humphrey, Courtland Partners

[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 – REPRESENTATIVE TIMM ORMSBY

Chair McIntire administered the oath of office to Representative Ormsby who is appointed to fill the state House of Representatives' position as appointed by the Speaker of the House, effective May 2, 2014, until May 1, 2016.

COMMITTEE ASSIGNMENTS

Chair McIntire moved that the Board assign Representative Ormsby to the Public Markets Committee, and reassign Mr. Sacks from the Public Markets Committee to the Private Markets Committee. Mr. Masten seconded, and the motion carried unanimously.

ADOPTION OF THE APRIL 17, 2014, MEETING MINUTES

Ms. Holman moved to adopt the April 17, 2014, meeting minutes. Vice Chair Frost seconded, and the motion carried unanimously.

PUBLIC COMMENT

Mdmes. Bourtai Hargrove, Rhonda Hunter, Patricia Holm, and Messrs. Glen Anderson and Tom Crawford, with the climate crisis group, Olympia Fellowship of Reconciliation, addressed the Board in follow-up to their public comments at the April 17 Board meeting. The Fellowship is now requesting the WSIB to identify all present fossil fuel investments in the Comingled Trust Fund (CTF), evaluate the risks of such investments, and find alternative non-fossil fuel investments with stable long-term potential and substantial profits. They distributed their official request letter, related testimony, and other materials to the Board urging fossil fuel divestment.

Mr. Bill Becker, Washington Environmental Council, encouraged the Board to consider modifying its proxy voting guidelines to more specifically address environmental issues with the same level of scrutiny as other social issues, so that it will vote more often in favor of proposals that support sustainability.

Chair McIntire thanked the public for all of their comments. He said the Board's fiduciary responsibility is very clear that it is to maximize returns at a prudent level of risk. He said the Board is currently reviewing its investment beliefs, and policies and procedures on sustainability issues. Historically the Board has not divested, but rather constructively engaged with companies as shareholders to influence change.

EXECUTIVE DIRECTOR'S REPORT

Ms. Whitmarsh reported there are no Committee meetings scheduled for July. The Board will meet next for a planning session July 15-17.

Mr. Paroian reported on staff's implementation of the alternative passive strategy. Across the board, costs are coming in lower than expected. He said, net of fees and implementation costs for the first month's (April 2 through April 30 inclusive) performance, the alternative weighted index did about 80 basis points (bps) better than

the cap-weighted index. The second month reversed some, but the relative outperformance of the alternative-weighted index versus the cap-weighted index is still around 40 bps for the two-month period (April 2 through May 30 inclusive).

Ms. Whitmarsh said staff had received media inquiries on a Securities and Exchange Commission (SEC) finding related to general partnership fees and expenses. Staff will continue to update the Board on this issue.

PRIVATE MARKETS COMMITTEE REPORT

Vice Chair Frost reported the Private Markets Committee met on May 1 and June 12 to consider two tangible assets, three private equity, and one real estate investment recommendations.

Cascade Midstream Partners I, LLC

> **Vice Chair Frost moved that the Board invest up to $150 million, plus fees and expenses, in Cascade Midstream Partners I, LLC, subject to continuing due diligence and final negotiation of terms and conditions. Mr. Masten seconded the motion.**

Vice Chair Frost reported that Cascade Midstream Partners I, LLC will invest in a diversified portfolio of midstream agriculture assets based in the U.S. and Canada in partnership with Bunge, Ltd., one of the world's largest agribusiness firms. The investment fits within the midstream segment of the agriculture industry in WSIB's tangible assets framework. As a separate account structure, the proposed investment is a unique relationship; one that is attractive due to the steady, long-term income focus, the opportunity to leverage the expertise of Bunge, and WSIB's exclusive access to Bunge's pipeline. The proposed investment is consistent with the Board-approved 2014 tangible assets annual plan. She said the recommendation is based on the niche strategy with Bunge as an industry leader with long-standing favorable trends; an experienced and cohesive team; agriculture expertise; global presence; and the ability to identify, analyze, and manage investments. Additional investment merits include exclusive pipeline access, long-term revenue stream, favorable governance rights, fit in the WSIB's tangible assets portfolio, and other factors relevant to the recommendation.

> **The above motion carried unanimously.**

Reservoir Resource Partners TE, L.P.

> **Vice Chair Frost moved that the Board invest up to $100 million, plus fees and expenses, in Reservoir Resource Partners TE, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Mr. Masten seconded the motion.**

Vice Chair Frost reported that Reservoir Resource Partners will invest in a diverse mix of existing natural resources and power assets, with a particular focus on out-of-favor or distressed assets. Within natural resources, the team has particular expertise in energy and agriculture, having invested actively in these sectors since 1999, while the power

investments have focused on distressed developed markets and emerging markets. The investment fits in the upstream (extraction and production) and midstream (distribution and storage) segment of both the energy and agriculture categories of WSIB's tangible assets framework. The proposed investment is consistent with the Board-approved 2014 tangible assets annual plan. She said the recommendation is based on the experience of the team and their 15-year deal-level track record, deep domain expertise of their platform companies, niche focus on misunderstood and overlooked areas, risk management expertise which is applied to protect downside outcomes, and attractive fundaments in the target markets. Additional investment merits include long-term revenue stream, favorable governance rights, the investment's fit in the WSIB's tangible assets portfolio, and other factors relevant to the recommendation.

Mr. Sacks asked what differentiated this deal to be tangible assets, versus a private equity deal. Ms. Will said they are looking for assets that will produce an income stream, rather than a growth strategy, although there is some growth involved. She said this specific fund does have an ending term period similar to private equity funds.

The above motion carried unanimously.

Warburg Pincus Energy, L.P.

> **Vice Chair Frost moved that the Board invest up to $200 million, plus fees and expenses, in Warburg Pincus Energy, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Mr. Masten seconded the motion.**

Vice Chair Frost reported the Energy Fund will invest alongside the main Warburg Pincus fund in all energy deals, using the same team and employing the same core hydrocarbon exploration and production strategy that Warburg has used for the last decade. The team will leverage the firm's extensive upstream experience and knowledge base to also invest opportunistically in midstream, unconventional, oilfield services, mining, and power. The WSIB has had a 20-year partnership with Warburg Pincus, investing in seven previous funds since 1994. The proposed investment is consistent with the Board-approved 2014 private equity annual plan and model portfolio. She said the recommendation is based on the firm's brand name reputation; stable and deep partner team; true global presence; solid, long-term performance; the North American exploration and production renaissance; and fit in the WSIB's private equity portfolio; as well as other relevant factors.

Mr. Sacks asked, when the Board thinks about private equity asset allocation, how that combines with tangible assets as an overall allocation, relative to energy and agriculture. Mr. Bruebaker said while staff has a general idea how private equity partners will invest, it cannot completely predict where sector concentrations may occur. Staff uses the Innovation Portfolio to fill gaps.

> **The above motion carried unanimously.**

KKR European Fund IV, L.P.

> **Vice Chair Frost moved that the Board invest up to €200 million, plus fees and expenses, in KKR European Fund IV, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Mr. Masten seconded the motion.**

Vice Chair Frost reported the Fund will generally seek to make equity investments ranging from €150 million to €250 million, primarily in Europe, although the fund may also invest in the Russian Federation and the countries of the Middle East and Africa on a limited basis. The WSIB has had a successful relationship with KKR for more than 30 years, committing nearly $8.5 billion to KKR-sponsored funds since 1983. This proposed investment is consistent with the Board-approved 2014 private equity annual plan and model portfolio. She said the recommendation is based on the firm's strong franchise, global platform, focus on value creation, strong track record, important long-term relationship with the WSIB, and fit in the WSIB's private equity portfolio as well as other relevant factors.

> **The above motion carried unanimously.**

Hellman & Friedman Capital Partners VIII, L.P.

> **Vice Chair Frost moved that the Board invest up to $600 million, plus fees and expenses, in Hellman & Friedman Capital Partners VIII, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Chair McIntire seconded the motion.**

Vice Chair Frost reported that, consistent with its predecessor funds, H&F VIII will focus on making equity-related investments mainly in the $300 million to $1.5 billion range, primarily in the United States and Europe. The firm targets investments in mid- to large-cap companies, depending on where it believes it can find the most compelling opportunities. H&F has been a long-term investment partner of the WSIB; the Board has committed $750 million in aggregate to three previous Hellman & Friedman sponsored funds since 2004. This proposed investment is consistent with both the Board-approved 2014 private equity annual plan and the model portfolio. She said the recommendation is based on the firm's laser focus; outstanding track record; strong, cohesive team; and fit in the WSIB's private equity portfolio; as well as other relevant factors.

> **The above motion carried unanimously.**

Aevitas

> **Vice Chair Frost moved that the Board make a follow-on investment of $500 million, plus fees and expenses, in Aevitas Property Partners, LLC, subject to continuing due diligence and final negotiation of terms and conditions. Mr. Masten seconded the motion.**

Vice Chair Frost reported that Aevitas' strategy is to invest in real estate operating companies (REOCs), consistent with the WSIB's primary strategy for real estate investments. Thus far, the Partnership has committed a total of $225 million to three REOCs. The partnership will continue to make investments focused on the Mediterranean region, India, and selected Western European countries. In addition to diversification of geography and property type, this group provides diversification of approach when compared to the WSIB's other real estate intermediaries due to their background in distressed and emerging markets investing. She said the recommendation is based on the quality of the firm's senior management and their differentiated skill set, strategy of investing in operating companies, diversification benefits, conditions in target markets, strong governance rights, exclusivity, and fit in the WSIB's real estate portfolio.

The above motion carried unanimously.

PUBLIC MARKETS COMMITTEE REPORT
Index-Related Strategies Investment Management Search Recommendation
Mr. Fox reported the Public Markets Committee met on June 10 to consider staff's recommendation for the index-related strategies investment management search.

He described every WSIB plan that uses public equity employs passive investment management. In these plans, passive represents the majority, if not all of the public equity exposure. Given the significance of passive equity management, it is critical that WSIB partners with the very best passive providers for the WSIB. Passive management is used to gain broad-based equity exposure at the lowest cost.

Public equity staff conducted a broad index-related search over the past several months. The pool of interested firms was narrowed down to four finalists: the two incumbents and two additional firms. Staff conducted detailed due diligence on these firms, including site visits to the two firms that were not incumbent managers.

Mr. Fox reported, as a result of this search, staff recommended to the Committee that the two incumbent managers are the best providers of index-related investment services for the WSIB and recommended the incumbents receive contracts to provide index-related products. He said the recommendation was due in part to the scale of assets under management, the breadth and depth of the index platforms, the tenure and experience of the teams, the sophistication of the systems, and the firms' abilities to meet the needs and requests of the WSIB, as well as other relevant factors.

Mr. Fox moved that the Board hire both incumbents, BlackRock Institutional Trust Company and State Street Global Advisors, for passive investment management contracts, subject to continued due diligence and successful negotiation of fees, terms, and conditions. Ms. Holman seconded the motion.

In response to Mr. Masten's question, staff confirmed the terms of the contracts would be 5 years Mr. Nierenberg said he asked the managers during the Committee meeting what they were doing to protect themselves and the WSIB from high-frequency traders and dark pools, and to better understand the process by which WSIB proxies are voted. He shared his opinion on the quality of the firms' answers. He said he is in favor of the

recommendation, but asked staff to continue to watch trading practices to ensure they are transparent, equal to all players, and the amount of frictional losses created by those who trade in front of us are minimized by the managers.

The above motion carried unanimously.

Chair McIntire requested that the Audit Committee work with staff to understand the issues noted by Mr. Nierenberg, and review available information with the Board to see if there is anything else the Board should pursue.

Mr. Fox thanked staff for the background materials provided on passive mandates to help the Committee better understand the proposal.

ADMINISTRATIVE COMMITTEE REPORT
Chair McIntire reported the Administrative Committee met earlier this morning.

Board Self-Evaluation Process
Chair McIntire said the Administrative Committee plans to delay the Board's self-evaluation process until September.

Non-Voting Board Member *Ad Hoc* Committee Update
Chair McIntire reported the non-voting Board member *ad hoc* Committee met to finalize non-voting Board member procedures and request qualifications, and spoke with fiduciary counsel regarding non-voting Board members' investment expertise.

Quarterly Budget Update
Chair McIntire reported the Fiscal Year 2014 appropriated budget has a balance of $1.3 million (7.4 percent savings), and the non-appropriated budget has a balance of $16.4 million (4.7 percent savings).

Budget Update – 2015-2017 Operating Budget
Mr. Moore presented staff's proposal for the 2015-2017 operating budget. He described the WSIB expenses are divided into two categories: appropriated and non-appropriated, with the appropriated funds subject to Legislative approval. He said the non-appropriated budget deals with costs that are directly tied to investments. Mr. Moore said that all expenditures are overseen by the Office of Financial Management and subject to audit. He reviewed the operating budget cycle, budget building steps, and budget categories. He said the budget proposal spends 76 percent on compensation, with travel, and goods and services making up most of the balance. He reviewed the WSIB's current budget authority and maintenance adjustments. He said policy adjustments are proposed to add one Public Equity Investment Officer (IO), a position for the Risk and Compliance area, and to close the gap on IO compensation relating to the biennial salary survey results so that WSIB IOs are relevant to their peers.

Mr. Moore reported the non-appropriated budget includes asset class management fees as its major expenses—fixed income is not included as it is managed by staff in-house. He said it is tougher to estimate expenses in the non-appropriate budget forecast than the appropriated side.

Mr. Moore said the proposed budget is approximately $40 million for the appropriated budget, and $772 million for the non-appropriated budget. Chair McIntire noted the WSIB's fee for investment management of 40 bps is substantially lower than what a private investment firm charges.

Ms. Holman inquired about the issue regarding general partnership fees mentioned during the Executive Director's report, and whether the SEC places a limit on fees or if that depends on the investment? Ms. Whitmarsh said the WSIB negotiates fees with managers, and the SEC does not regulate it. She said the SEC actions she mentioned in her report have more to do with disclosure issues. Mr. Bruebaker said CEM Benchmarking would report on WSIB's costs surrounding private equity at the September Board meeting. Ms. Whitmarsh added that it is difficult to comment on the SEC's efforts—all staff knows at this time is what was reported in the press.

> **Chair McIntire moved that the Board approve the proposed 2015-2017 operating biennial budget. Vice Chair Frost seconded, and the motion carried unanimously.**

Assistant Attorney General's Report
Ms. Lobdell reported the WSIB joined an amicus brief related to a Supreme Court petition resulting from a claim made by the Mississippi Public Employees' Retirement System against IndyMac, which was dismissed due to the statute of limitations. The petition challenges the 3-year time limit for investors to join or opt out of class-action lawsuits.

[Mr. Nierenberg left the meeting at 11:00 a.m.]
[The Board recessed at 11:05 a.m. and reconvened in open session at 11:18 a.m.]
[Mr. Nierenberg joined the meeting via teleconference at 11:09 a.m.]

AUDIT COMMITTEE REPORT
Mr. Sacks reported the Audit Committee met on June 10 to review the annual report on compliance with the Board's Conflict of Interest Policy, prepared by an independent firm. The report contained exceptions involving timely submission of Statements of Financial Affairs, policy certifications, and training. Management indicated all issues have been corrected since the review.

He said the Committee received an external quality assurance report on the WSIB Internal Audit function compliance with Internal Audit Standards. The assessment is required every 5 years, and the review team concluded the WSIB Internal Audit "generally conforms" to standards. Mr. Sacks pointed out the opinion is the highest of three possible ratings and the report included a number of best practices, as well as opportunities to improve. The Committee will consider the recommendations at the next quarterly meeting in September, with any policy changes necessary coming to the full Board.

Mr. Sacks reported the Committee also received updates on: 1) the status of prior audit recommendations, 2) annual audit plan status, 3) corporate governance, 4) a strategic project on real estate partner governance, and 5) investment referrals

Investment Referral Process Policy 2.05.800 3-Year Review
Mr. Sacks said the Committee reviewed the Investment Referral Process Policy, with no changes proposed.

> **Mr. Sacks move that the Board reaffirm approval of the Investment Referral Process Policy 2.05.800 with no recommended changes. Ms. Holman seconded, and the motion carried unanimously.**

The Committee also reviewed the Fiscal Year 2015 Annual Internal Audit Plan, and project selections made using a rigorous risk assessment process.

Fiscal Year 2015 Annual Internal Audit Plan

> **Mr. Sacks moved that the Board adopt the Fiscal Year 2015 Internal Audit Plan. Ms. Holman seconded, and the motion carried unanimously.**

Finally, the Committee met in executive session to review the Audit Director's annual performance evaluation. After serving the Board for over 8 years as the head of Internal Audit, Ms. Killman has accepted a new position with the Board in the Risk and Compliance Unit. She will be transitioning to her new role after the September Audit Committee meeting, and will work with the Audit Committee to find a replacement. Mr. Sacks commented that Ms. Killman has set an incredibly high bar for her replacement, and the systems and structures she has put into place serve the WSIB well.

EDUCATION SESSION
Real Estate Market Update
Mr. Humphrey summarized his planned presentation on global real estate market conditions. He said some current questions being asked by Courtland clients include whether real estate is overvalued and, if so, in which risk/return category; and what can be done to reposition portfolios against inflation or deflation. Mr. Humphrey reviewed charts on regional direct commercial real estate investments' growth in recent years, and country investment changes in the past two years. He discussed the amount of investments done in the top global cities for the first quarter of 2014, noting that 12 of the cities are within the U.S. He reviewed property price recoveries, holding patterns, sector activities, capital flows by strategy and region, correlation between interest rates and capitalization (cap) rates, and how different market cycles have affected cap rates and dividend indices.

Mr. Muhlebach asked Mr. Humphrey to evaluate the WSIB's REOC strategy as compared to other Courtland clients' investments. Mr. Humphrey said the WSIB has outperformed, which he believes is due to its focus, the joint venture of staff and real estate partner, and because more attention is paid to leverage. He said the REOC strategy makes sense for the WSIB due to the size of its allocation; whereas, it would not make sense for other clients. Mr. Longbrake said he believes pursuing macro-strategies will not do a lot of good; instead, it is critical to focus on fundamentals. Mr. Draper said that, while the information presented is interesting, he believes sometimes statistics can hide the facts. Treasurer McIntire asked about bubbles and property values in China. Mr. Draper said

approximately 2-1/2 percent of the real estate portfolio is invested in China. Mr. Gantt said staff is focused on necessity real estate in stable areas within China, and is moving away from passive investments toward some innovative areas that others have not considered. Mr. Nierenberg asked if Courtland or staff is considering monetizing anything in areas that are super-heated. Mr. Draper said WSIB's participation in those areas is nominal.

EXECUTIVE SESSION
Assistant Attorney General's Report (Continued)
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 would likely to result in an adverse legal or financial consequence to the WSIB. He said the executive session was expected to last less than 5 minutes, at which time the Board would reconvene in open session.

[The Board went into executive session at 12:10 p.m., and then took a brief recess at 12:11 p.m. The Board reconvened in open session at 12:30 p.m.]

BOARD REPORTS ON CONFERENCE ATTENDANCE
Council of Institutional Investors (CII) Spring Meeting
Chair McIntire and Messrs. Sacks and Masten reported on CII meeting discussions including fiduciary capital, and collaboration between institutional investors on externality costs that can affect market performance and active engagement efforts. Mr. Masten said his interest in attending future meetings is diminished, as he believes decreased trustee attendance and increased professional staff attendance has affected the meetings' focus, structure, and discussions. He noticed similar changes at the pre-meeting of union groups. Ms. Whitmarsh said that CII recognizes the professional corporate governance cadre over the past decade, and is struggling with meeting their needs for technical education and analysis, in addition to the needs of its core constituency. She said it is a timely comment and discussion for CII and, as a CII Board member, she plans to share those observations at the next CII Board meeting.

Russell Summit
Mr. Nakahara reported on what he felt were more memorable sessions at the Summit, including smart beta, making alternatives work—such as private equity and real estate (which are core to WSIB's asset classes), the changing state of the energy industry, and cognitive biases.

National Conference on Public Employee Retirement Systems (NCPERS)
Ms. Kuschel commented on her group mock session on managing investments against fees, and participation in fixed income and private markets trainings. She said she was specifically interested in meeting some of the small funds and learning about their strategies. Mr. Fox reported on Mr. James Mackison's (WSIB's Director of Technology and Innovations) moderation of a session on using data in the global financial system, which included panelists from BNY Mellon and State Street Global Services. Mr. Fox said he had served on NCPERS since 2004 and strongly supports their mission. He encouraged members to review the conference presentations posted on the NCPERS website, specifically the presentation on the Detroit bankruptcy. He said NCPERS was attended by about 1,000 individuals, including sponsors, trustees, and others.

International Centre for Pension Management (ICPM) Discussion Forum
Vice Chair Frost said Mr. Keith Ambachtsheer founded the ICPM organization, which hosts two conferences a year. It brings together institutional investors from around the globe. Washington was asked to speak to what is working well here, compared to other U.S. systems. She said she shared and discussed the PEW report, as well as what makes Washington State unique (such as its governance structure). The global themes that emerged for pensions were affordability, safety, and helping members understand their pensions. There was discussion of defined ambition plans—which includes defined benefit with combined risk of employer and employee, and a defined contribution option which can be supplemented with defined benefit-like options. She stressed there are costs connected to these plans; specifically, the Canadian plans' fee structure is much higher than the WSIB's. Discussions included pension system design, investing and associated risks, and infrastructure.

Network for Studies on Pensions, Aging, and Retirement Conference
Vice Chair Frost and Ms. Whitmarsh gave a presentation to a network of European investors on discounted rates used within Washington State. Ms. Whitmarsh said she felt participants under the Dutch regulatory environment's focus on safety may have shifted after this presentation considering the results Washington has achieved, as they are interested in participating in future conversations. Chair McIntire said he would like to participate in those discussions. Mr. Longbrake said this is an overdue conversation, and protection, affordability, and access are goals to aspire to. Chair McIntire said there are other certain liabilities to consider aside from policy. Mr. Miller asked how long the Dutch has held their philosophy. Ms. Whitmarsh said it has always been a focus, and she believes it is cultural.

Mr. Fox suggested the Board have a few sessions to further discuss other institutional investors' policies, history, and priorities. Chair McIntire said the incoming Chair could consider Board agenda time for these types of discussions.

[Senator Nelson left the meeting at 1:18 p.m.]

PERFORMANCE REPORTS
CTF Performance Update
Mr. Bruebaker reported the first quarter ended March 31, 2014, was a great quarter and year for the CTF. It earned in excess of 8 percent in every time period. The CTF is up 3.06 percent for the quarter and 13 percent for the year ended March 31. He said equity markets are up 4.88 percent since the quarter end. The since inception return is 8.89 percent, which is up 4 bps from the quarter ended December 31, 2013, which is not easy to do.

For measuring performance, the WSIB looks to the most difficult measure, the Implementation Value Added (IVA) benchmark. The CTF underperformed the IVA in every time period. Mr. Bruebaker explained it is difficult to beat the IVA with 43 percent of the portfolio in illiquid assets. In looking at the TUCS benchmark, the WSIB outperformed in every time period except the 3-year. He noted that WSIB beating the average public fund over a 10-year time period means it has $6 billion more in the CTF than the average fund. Mr. Bruebaker said performance was hurt by 7 bps due to the

allocation decision (an overweighting in public equity) and due to manager selection within private equity, which returned 5.56 percent for the three-month period, as compared to the index return of 10.87 percent. This was somewhat offset by public equity managers, who performed better than the index by adding 10 bps, and real estate managers who outperformed by 55 bps. Mr. Bruebaker pointed out that public equity has outperformed in every time period since Mr. Paroian joined staff.

Overall, Mr. Bruebaker reported the portfolio is positioned well for the long-term. He said during periods of double-digit public equity returns WSIB private equity performance will lag vis-à-vis the benchmark as 23 percent of the CTF is in private equity, which has to beat public equity by 300 bps. He noted that 37 percent of the CTF is in public equity, which is not bad for the WSIB either. Currently, the WSIB has over $102 billion in total assets under management.

Private Markets Annual Performance Discussion

Private Equity

Mr. Ruggels reported on private equity performance for the periods ended December 31, 2013, by sub-sector. The total combined return for the one-year period was 19.8 percent, which underperformed the program's benchmark, the Russell 3000 Index total return plus 300 basis points. The program's 10-year internal rate of return (IRR) of 13 percent exceeded the benchmark. He reported on cash flows, with drawdowns of $5.5 billion and distributions of $9.7 billion during the last 29 month period, which resulted in a net positive cash flow of $4.2 billion. The since inception net IRR for private equity is 13.3 percent, consistent with the 3-year and 10-year net IRR's of 13 percent. The 5-year net IRR is a bit higher at 15.7 percent reflecting the market coming out of the downturn.

[Mr. Nakahara left the meeting at 1:30 p.m.]

Mr. Ruggels shared a few observations on the market recovery, pricing, general partner investing, and fund raising. Mr. Longbrake pointed out the same kinds of patterns were discussed during the real estate education session. He asked if the asset allocation currently in place is too tight or if there is flexibility. Mr. Ruggels said it depends how long the current conditions continue until the next correction, which is hard to know. Right now, Mr. Ruggels said he does not feel much pressure but wants to ensure the Board is comfortable using the plus or minus 4 percent within the allocation range. Mr. Longbrake said, if the trends continue and Mr. Ruggels gets the feeling things are getting over extended, he hopes he would come back to the Board with cautionary recommendations. Chair McIntire said the July Board meeting agenda includes discussion of private equity allocation target.

In response to Mr. Sacks' question about the asset distribution by category, Mr. Ruggels said distressed is targeted at 0-10 percent and is currently around 5-6 percent; venture growth is targeted at 10 percent and is currently a little higher than that; small/medium corporate finance is at about 15 percent and staff want to grow that to as much as 25 percent; the mega large target is around 50 percent and currently slightly over that; and special situations is a specific classification used by two partners that is not really used in the model portfolio context and is not targeted.

Real Estate

Mr. Draper said there is mostly good news to report in the real estate portfolio. The 2013 calendar year return of 14.3 percent was great and very encouraging. He noted that if the portfolio was bifurcated between REOCs and other structures, the REOC return was 18.6 percent for that same period. The 10-year period return was 9.9 percent.

He discussed portfolio changes during 2013, including the addition of four companies to the REOC list, covering four countries and three different asset types; the portfolio continues to expand globally. In terms of holdings, there were increases in residential, retail, and self-storage; and office exposure was decreased by design. Leverage continues to decrease and is currently at 47.5 percent.

Mr. Draper said positive activities included a number of partners who took advantage of developing property starting at the bottom of the cycle, putting money into the market when others ran away. There was remarkable impact on partners that chose that path, primarily focused in the self-storage, convenience retail, and student housing sectors. Some companies more than doubled in size since the bottom of the cycle. He reported that good performance was also due in part to finishing developments, and benefitting from urban growth or re-urbanization. Some failed debt investments, taken over during the downturn and ultimately sold, performed well, and there are only a few remaining in the portfolio.

Real estate investment is the United Kingdom, Scandinavia, and certain U.S. markets performed well, but healthcare holdings (which did well during the downturn) did not, as healthcare continues to be impacted by government changes and uncertainly.
Mr. Draper said more developments are in process, which should be good for the long-term, but will dampen current returns.

Tangible Assets

Ms. Will noted that the Tangible Assets portfolio did not have a good year in 2013, with a negative return of 1.7 percent for the year, primarily due to the write down of a legacy asset, Hawthorne Timber, in the second quarter of 2013. Even with the negative return, the portfolio grew from $967 million to $1.34 billion due to capital calls exceeding distributions.

Ms. Will provided an overview of the sectors within the Tangible Assets portfolio. In the agriculture sector, 2013 was a record year for U.S. crops. Corn and soybean prices in the U.S. have declined significantly due to a surge in planting from the peaks of 2012, which was one of the biggest drought years. Land values stabilized in 2013 after seemingly perpetual increases with even some minor weakening in the Midwest, although prices remained high due to strong farmer profitability. Institutional interest has also supported land values with a lot of established and first-time funds seeking commitments for a broad range of upstream agriculture strategies. The WSIB entered into the agriculture sector ahead of the new capital inflows and should be able to get some of our money invested before prices increase because of the flood of money.

In the energy sector, oil prices were mixed in 2013 with the Brent Crude, the global benchmark, holding flat at $111/barrel while the West Texas Intermediate (WTI), the U.S. benchmark, increased from $7 to $98/barrel. The narrowing of the spread was a

result of more supply from shale in the U.S. reaching domestic refiners with the development of new midstream infrastructure. In 2014, both Brent and WTI have traded up. Returns in the midstream space were strong due to an abundance of growth opportunities, particularly in the pipeline segment, arising from growth in oil and gas supply. Strong gains by Master Limited Partnerships arising from growth investments and investor demand for yield were the primary catalyst to the increase in midstream values. Returns were also strong in the upstream segment due to a significant increase in the number of funds raising capital to exploit exploration opportunities in the developing shale regions. There is a lot more interest in energy from private equity groups.

In the minerals and mining sector, prices for precious metals declined significantly in 2013, with gold and silver prices declining approximately 30 percent each due to concerns about the pace of global growth and the potential for deflation in many critical economies. Base metal prices also declined, with copper and aluminum trending lower throughout the year sparked primarily about concerns of a slowdown in the Chinese economy. Despite long-term fundamentals that remain attractive, seemingly distressed mine revenues, and a dislocation in capital markets, there remain only a handful of managers that specialize in the type of mine investing with a risk profile consistent with most institutional investors. The Tangible Assets program is struggling to find investments in this area that meet WSIB criteria.

Within the society essentials sector, valuations in the infrastructure space remain high, driven by investor demand for yield and an abundance of large, direct funds offered by Canadian pensions and Australian superannuation funds. With an abundance of capital in the market, most core infrastructure around the society essentials, such as ports, water, and airports, has largely traded at auction.

OTHER ITEMS

There was no further business to come before the Board, and the meeting adjourned at 2:07 p.m.

Jim McIntire
Board Chair

ATTEST

Theresa J. Whitmarsh
Executive Director