

WASHINGTON STATE INVESTMENT BOARD
Board Meeting Minutes
September 18, 2014

The Washington State Investment Board met in open session at 9:56 a.m. in the boardroom at 2100 Evergreen Park Drive SW, Olympia, Washington.

Present: Marcie Frost
Kelly Fox
Arlista Holman
Judy Kuschel
Bill Longbrake
George Masten
Treasurer Jim McIntire
Bob Nakahara
Senator Sharon Nelson
Representative Timm Ormsby
David Nierenberg
Joel Sacks
Jeff Seely

Absent: Stephen Miller
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 – Tangibles
Kristi Haines, Confidential Secretary

Mary Lobdell, Attorney General's Office
Dawn Cortez, Attorney General's Office
Mike Heale, CEM Benchmarking
Matt Smith, State Actuary

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

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

BOARD OPERATIONS

Board Elections – Chair/Vice Chair

Chair McIntire called for nominations for Board Chair.

Mr. Masten nominated Ms. Frost as Chair. Mr. Sacks seconded the nomination. There were no further nominations.

Mr. Masten moved for a unanimous ballot. Mr. Sacks seconded, and Ms. Frost was nominated Chair by acclamation.

Treasurer McIntire said he had enjoyed his time as Chair, believes it is important for the State Treasurer to be actively involved with the Board, and said he would continue to do that. Chair Frost thanked the Board for their vote of confidence.

Chair Frost called for nominations for Board Vice Chair.

Mr. Masten nominated Mr. Fox as Vice Chair. Treasurer McIntire seconded the nomination. There were no further nominations.

Mr. Masten moved for a unanimous ballot. Mr. Sacks seconded, and Mr. Fox was nominated Vice Chair by acclamation.

ADOPTION OF THE JULY 15-17, 2014, MEETING MINUTES

Ms. Holman moved to adopt the July 15-17, 2014, meeting minutes. Ms. Kuschel seconded, and the motion carried unanimously.

COMMITTEE ASSIGNMENTS

Chair Frost presented her recommended Committee assignments. She recommended that Treasurer McIntire Chair the Audit Committee, Mr. Fox move to the Private Markets Committee, Mr. Sacks Chair the Public Markets Committee and remain on the Audit Committee, and Mr. Masten remain as Private Markets Committee Chair.

Mr. Masten moved the Board approve the Chair's recommended Committee assignments. Representative Ormsby seconded, and the motion carried unanimously.

PUBLIC COMMENT

Messrs. Pickett, Whitlock, and Anderson; and Mdmes. Hargrove, Holm, Riener, Bassett, Rants, and Sunshine individually addressed the Board requesting it replace fossil fuel investments in the Commingled Trust Fund (CTF) with green technologies. Several materials were distributed asserting that carbon dioxide emissions harm the environment, constructive engagement with fossil fuel companies does not work, and WSIB's investment decisions are critical to the environment and beneficiaries' futures.

[Mr. Seely left at 10:23 a.m.]

Chair Frost thanked the public for the thoughtful remarks. She suggested today's agenda may be of interest to those who addressed the Board, specifically, a planned discussion of a sustainability investment belief proposal.

EXECUTIVE DIRECTOR'S REPORT

Ms. Whitmarsh noted the cancellation of upcoming meetings. She said staff had discussed with legislative Board members their participation at the asset class annual planning discussions, and a proposal will be voted on later on the agenda for a two-day session at the December Board meeting, as opposed to Committee level discussions.

Ms. Whitmarsh introduced Ms. Marie Steffen, who replaces Ms. Shawna Killman as Audit Director, and Ms. Jill Kunz, who replaces Mr. Brad Christoffer as PC Support Specialist.

PRIVATE MARKETS COMMITTEE REPORT

Mr. Masten reported the Private Markets Committee met on September 4 to consider two tangible assets and three private equity investment recommendations.

Prostar Asia-Pacific Energy Infrastructure Fund L.P. and Global Terminals Investments Ltd.

Mr. Masten moved the Board invest up to \$100 million, plus fees and expenses, in Prostar Asia-Pacific Energy Infrastructure Fund L.P. and co-invest up to \$100 million, plus fees and expenses, in Global Terminal Investments Ltd. Further, the Private Markets Committee recommend the Board authorize staff to exercise, at its discretion, an option in the fund that allows an investor to retain its pro-rata share of an asset upon liquidation by the fund, and to negotiate a management agreement for such share with equal or better terms as those of the fund, with notification to the Board to follow promptly in the subsequent Executive Director report when any such option is exercised. Ms. Kuschel seconded the motion.

Senator Nelson commented on noted difficulties with a former manager, who it appears is no longer with the firm, which is under new management. Mr. Akers responded that the manager had been stripped of their role and only has some limited partnership rights. He is confident there is no impact.

Mr. Masten reported that the fund will focus on the Asia-Pacific region and will make control and influential minority equity investments in middle-market energy infrastructure assets and operating companies that are focused on midstream, storage, transportation, and energy distribution infrastructure. The proposed investment would fall into the unidentified allocation in the Board-approved 2014 tangible assets annual plan that was included in the mid-year update. He said the recommendation is based on the increasing global demand for energy products, especially in the Asia-Pacific region; the subsequent need for new infrastructure to handle the storage, transportation, and distribution of those energy products; the shift toward natural gas and away from coal; the firm's investment strategy; long-term relationships with key strategic operators; strong team; high quality seed assets and transaction pipeline; proprietary deal flow; platform company concept; fit in the WSIB's tangible assets portfolio; and other factors relevant to the recommendation.

The above motion carried unanimously.

Sheridan Production Partners III, L.P.

Mr. Masten moved the Board invest \$150 million, plus fees and expenses, in Sheridan Production Partners III, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Ms. Kuschel seconded the motion.

Mr. Masten reported that the fund will invest in a diverse portfolio of mature, predictable oil and gas producing properties within various U.S. basins. This would be the third standalone fund for Sheridan Production Partners Manager. The WSIB invested in both of the previous funds. The proposed investment would fall in the Board-approved 2014 tangible assets annual plan and is complementary to the other energy holdings in the WSIB's tangible assets portfolio. He said the recommendation is based on the experience of the team and the fund's investment strategy, cash generation, narrow focus, succession planning, core assets, fit in the WSIB's tangible assets portfolio, and other factors relevant to the recommendation.

The above motion carried unanimously.

Roark Capital Partners IV, L.P.

Mr. Masten moved the Board invest up to \$200 million, plus fees and expenses, in Roark Capital Partners IV, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Mr. Sacks seconded the motion.

Mr. Masten reported that Roark Capital Partners IV is a North American middle-market buyout fund with a target size of \$2 billion. The fund will invest in middle-market companies in franchising and multi-unit type businesses, as well as consumer products and services, environmental services, and business services sectors, mainly in the United States and, to a much lesser extent, Canada. The WSIB has made one previous commitment to Roark Capital Group. The proposed investment is consistent with the updated 2014 private equity annual plan and the private equity model portfolio. He said the recommendation is based on the firm's strong performance, niche strategy, proactive deal sourcing, deep industry expertise, and fit in the WSIB's private equity portfolio, as well as other relevant factors.

The above motion carried unanimously.

Advent Latin American Private Equity Fund VI L.P.

Mr. Masten moved the Board invest up to \$250 million, plus fees and expenses, in Advent Latin American Private Equity Fund VI L.P., subject to continuing due diligence and final negotiation of terms and conditions. Ms. Kuschel seconded the motion.

Mr. Masten reported the fund will invest in companies across Latin America and will pursue control positions in later-stage, middle-market businesses, principally in Mexico, Brazil, and Colombia. The WSIB has invested in four previous Advent International funds. The proposed investment is consistent with the 2014 private equity annual plan

and the private equity model portfolio. He said the recommendation is based on the firm's experienced team, strong governance, proven investment strategy, consistent performance record over multiple cycles, and fit in the WSIB's private equity portfolio, as well as other relevant factors.

The above motion carried unanimously.

Bridgepoint Europe V L.P.

Mr. Masten moved the Board invest up to €225 million, plus fees and expenses, in Bridgepoint Europe V L.P. subject to continuing due diligence and final negotiation of terms and conditions. Mr. Sacks seconded the motion.

Mr. Masten reported that Bridgepoint Europe V is a pan-European middle-market buyout fund that will invest in well-established, market-leading, middle-market companies with strong growth potential, primarily in the United Kingdom and Western Europe, and to a lesser extent in Eastern Europe and the Nordic region. The WSIB has invested in two prior Bridgepoint Europe funds. The proposed investment is consistent with the 2014 private equity annual plan and the private equity model portfolio. He said the fund will target diverse industries, but with a particular focus on consumer, healthcare, financial services, business services, industrial, and media and technology sectors. The recommendation is based on the firm's 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.

AUDIT COMMITTEE REPORT

Mr. Sacks reported that the Audit Committee met on September 9 to review an internal audit report on the Board's Audit Recommendation Follow-Up Project. He said the WSIB hired an audit intern this summer to review the status of corrective actions to address 20 prior audit recommendations. The results were positive, and the report contained one recommendation that is being addressed by the Department of Retirement System's third-party record keepers. Mr. Sacks commended staff on their efforts.

Mr. Paroian presented an educational session on how public equity managers are dealing with new trading methods, particularly "dark pools" and "high frequency traders." Consensus is that these new methods are neither all good nor all bad. The key is whether they are causing our managers to incur higher trading costs than they otherwise would. Monitoring by Zeno, an independent third party firm that conducts execution analysis, indicates that the WSIB's managers' trading costs are lower than average. Responses from our managers indicate a thoughtful and balanced approach to the challenges presented by dark pools and high frequency trading. WSIB staff will continue to question our public equity managers on their monitoring of brokers and execution venues to ensure that trading in our accounts is done efficiently and in the funds' best interests.

Mr. Sacks reported that the Committee covered a number of other areas: the status of prior audit recommendations, annual audit plan status, internal audit performance measures for Fiscal Year 2014, internal audit staffing, and investment referrals.

Fiscal Year 2015 External Accountability and Compliance Audit Services – Scope of Work and Auditor Appointment

Mr. Sacks said, given the turnover experienced in the Internal Audit unit, the Committee is seeking approval to augment resources by having an external audit service provider complete three internal audits included in the Fiscal Year 2015 plan approved by the Board in June.

Mr. Sacks moved the Board approve the scope of services and appoint Peterson Sullivan LLP to perform a review of three areas of WSIB operations included in the Fiscal Year 2015 Internal Audit Plan: Asset Allocation and Rebalancing, Travel Expenditures, and Commingled Fund Monthly Pricing and Unitization. Ms. Holman seconded, and the motion carried unanimously.

Audit Committee Charter 1.00.130 Revision

Mr. Sacks said the External Quality Assessment Review of the WSIB Internal Audit function in June concluded that the WSIB met standards and has done a great job. One suggestion was that language be added to the Audit Committee Charter Policy to include termination oversight of the Audit Director position as a Committee responsibility.

Mr. Sacks moved the Board approve the proposed revision to the Audit Committee Charter Policy 1.00.130. Ms. Holman seconded, and the motion carried unanimously.

Global Proxy Voting Guidelines 2.05.200

Mr. Sacks said the Committee also recommends revising the Global Proxy Voting Guidelines to clarify and expand on the types of issues the WSIB will consider supporting, which is very much in line with the investment belief the Board will discuss this afternoon.

Mr. Sacks moved the Board approve the proposed revisions to the Global Proxy Voting Guidelines Policy 2.05.200.

Senator Nelson recused herself from the Board vote.

Ms. Holman seconded, and the motion carried with Senator Nelson recusing herself.

[The Board recessed at 11:00 a.m., and reconvened in open session at 11:15 a.m.]
[Mr. Seely returned at 11:15 a.m.]

WASHINGTON STATE OPPORTUNITY SCHOLARSHIP FUND STRATEGIC ASSET ALLOCATION STUDY AND POLICY 2.35.500 ADOPTION

Ms. Tucker presented the proposed Washington State Opportunity Scholarship (WSOS) fund strategic asset allocation and policy. She said the WSOS is a public-private partnership between the State and Washington's private business community that is attempting to address the rising tuition within the state. She said the WSOS approached the Board last year about potentially managing funds on its behalf. After WSOS's legislation passed, staff worked with the WSOS Investment and Finance Committee to

understand their return objectives, risk tolerance, and liquidity needs. The proposed draft investment policy is a result of those conversations.

Ms. Tucker explained that the WSOS funds would be held in two accounts, a scholarship account and an endowment account. The principal distinction between the accounts is that scholarships may be funded by the donations in the scholarship account, while only investment earnings may be disbursed for scholarships out of the endowment account. WSOS expects to fund the accounts initially in the \$25 to \$45 million range. The assets are made up of contributions to the program from private sources and through state match funds, which are expected to significantly increase over time as fundraising goals to secure private donations and state match dollars are met.

[Mr. Nakahara arrived at 11:18 a.m.]

Ms. Tucker said staff is ready to move forward with implementation. She said onboarding activities will affect all aspects of the agency. She thanked Ms. Kris Logan for her co-lead on the new relationship. Ms. Whitmarsh pointed to the members who comprise the WSOS Investment and Finance Committee. They agree with WSIB's approach and are pleased with staff interactions, which is a real vote of confidence in the WSIB from the corporate community. Treasurer McIntire and Mr. Fox were also complimentary of Ms. Tucker.

Treasurer McIntire moved the Board approve the recommended strategic asset allocation for the Washington State Opportunity Scholarship Fund and adopt the Washington State Opportunity Scholarship Fund Policy 2.35.500. Mr. Masten seconded, and the motion carried unanimously.

SAVINGS POOL POLICY 2.13.200 REVISION

Mr. Kennett said staff recommends the Board approve a revision to the Savings Pool Policy regarding the credit rating constraint. The specific change is to replace any reference to the Moody's credit rating agency with a reference to the nationally recognized credit agencies to provide extra flexibility to staff in determining which rating to rely upon when doing their own credit work.

Mr. Kennett explained that the various rating levels among the various agencies can be equivalent but listed differently, such as A+ versus A1. Treasurer McIntire said he believes Fixed Income staff do a better job rating credit than Moody's, and he appreciates staff having this flexibility.

Mr. Masten moved the Board approve the proposed revision to the Savings Pool Policy 2.13.200. Treasurer McIntire seconded, and the motion carried unanimously.

ADMINISTRATIVE COMMITTEE REPORT

Treasurer McIntire reported that the Administrative Committee met earlier this morning.

He said Mr. Moore reported the Fiscal Year 2014 appropriated budget ended with a balance of \$2 million (11.7 percent savings), and the non-appropriated budget with a

balance of \$29 million (8.5 percent savings). All savings remain in the various funds under WSIB's management.

Non-Voting Board Member Expiring Term Review

Treasurer McIntire said the Committee reviewed the term of non-voting Board member David Nierenberg, expiring December 31, 2014. The voting members of the Board will discuss his performance at the end of the agenda today, in executive session.

Non-Voting Board Member *Ad Hoc* Committee Update

Treasurer McIntire shared that the Committee is currently working on revising the position description and procedures and will have a recommendation for the Committee at its next meeting.

Assistant Attorney General's Report

Ms. Lobdell reported on the bad actor rule, which is being instituted by the Securities Exchange Commission (SEC) and which applies to any entity seeking an exemption from SEC registration. Under this rule, private equity firms must exercise reasonable care to ascertain whether certain bad actors are participating in an investment. Some of the general partners have asked that the WSIB affirm that those exercising control or influence over an investment are not bad actors. It is a one-time certification and, if personal circumstances change, the obligation is on the member to notify the Executive Director.

Treasurer McIntire suggested that staff make an effort to ensure Board-appointing authorities are aware of this certification. Mr. Fox agreed that any candidate being considered for appointment by the Governor should be certified, as opposed to waiting to certify after the appointment is made. Ms. Whitmarsh said staff would notify the Governor's Boards and Commissions office, the Superintendent of Public Instruction, and legislative appointing authorities, as it is important to make the assertion prior to appointment.

Ms. Cortez reported on *Halliburton versus Erica P. John Fund*. Earlier this year, the Board joined other institutional investors to ask the Supreme Court to uphold the "fraud upon the market" presumption. The U.S. Supreme Court affirmed the presumption but allowed the parties the ability to rebut the presumption by establishing at the class certification stage that a misrepresentation did not affect the market at the class certification stage. She said this is a win for plaintiffs in securities litigation cases like that of the WSIB.

Chair Frost announced that 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 then to discuss the performance of a public employee. She said the executive session was expected to last until about 20 minutes, at which time the Board would reconvene in open session.

[The Board went into executive session at 11:37 a.m., and reconvened in open session at 12:10 p.m.]

Assistant Attorney General's Report (continued)

Treasurer McIntire moved that the Board approve the AAG's recommendation to terminate WSIB's agreement with Deminor related to a class action due to lack of participants. Mr. Masten seconded, and the motion carried unanimously.

CONFIDENTIAL SECRETARY'S COMPENSATION

Treasurer McIntire moved that the Board approve the Confidential Secretary's compensation level of \$84,615 annually, effective July 1, 2014. Mr. Masten seconded, and the motion carried unanimously.

[The Board recessed at 12:13 p.m., and reconvened in open session at 12:44 p.m.]

SUSTAINABILITY DISCUSSION FOLLOW-UP

Treasurer McIntire said the Board discussed at its July meeting a proposed investment belief regarding sustainable and responsible investment. He re-introduced the suggested addition to the WSIB's defined benefit retirement funds investment beliefs, which reads:

The WSIB has a long investment horizon and therefore is subject to complex and systemic global risks that unfold over time, including financial risks resulting from global climate change. Many of these risks are difficult to quantify, but nevertheless, we consider all identifiable risks in our investment process and believe thoughtful consideration of these evolving global challenges is inseparable from long-term investment strategy and performance. We believe that a full disclosure of these risks anticipated by the companies in which we invest and the investment managers with whom we partner, along with full disclosure of what they are doing to manage these risks, is necessary for us to invest responsibly by including long horizon risk assessment in our investment process.

Treasurer McIntire said he thinks the belief supports the Board's Global Proxy Voting Guidelines approved earlier this morning and urged adoption, stating that the Board cannot continue to put its head in the sand around real financial risks of climate change and should begin to recognize the risk issue in the portfolio.

Senator Nelson recused herself from the Board vote.

Treasurer McIntire moved the Board adopt the Sustainability Investment Belief, as presented. Mr. Sacks seconded the motion.

Mr. Masten moved to amend the motion to strike the remainder of the sentence after "over time," in the second line. The motion was seconded.

Mr. Masten said there are many other things to consider, and the Board should not zero in on one issue. Treasurer McIntire opposed the amended motion. He said the Board needs to call out climate change, as it is difficult to get people's attention until it is too

late and becomes irreversible at some point. He said he does not know how the Board can have a long-term investment strategy that does not call out the issue specifically.

Mr. Fox asked if the issue might be further addressed at the Committee level, as he believes he has insufficient information. He said he would like to hear from staff on what impact the investment belief would have, and changes that would need to be made—consequences and benefits. Mr. Bruebaker responded that investment beliefs and asset allocation come directly to the Board versus a Committee. He noted that staff tried to highlight at the July meeting what they do around climate change. It would have some impact on due diligence to ensure the Board knows what is looked at but otherwise would not change the process itself. He noted that staff takes what members say very seriously, and every question asked is addressed by staff, even if the Board is not aware of it. The fact that the Board is highlighting the risk alone is enough for staff to ask the partners and managers to do more. He noted that, if adopted, the sustainability investment belief would be the first belief adopted since the original 16 beliefs were approved by the Board. In response to Representative Ormsby's question, Mr. Bruebaker said the belief would be incorporated and grouped within the investment beliefs that address risk, unless staff is otherwise directed by the Board.

Mr. Fox said he would be comfortable with the amended motion, stating it is broader than just global climate change, and that too would be taken into consideration given this dialogue.

Mr. Sacks suggested the Board not adopt the amendment. He said it is important to specifically call out climate change and does not think the language excludes other risks. Mr. Seely agreed, stating that if the wording is removed it is no different than what is already covered in the existing investment beliefs. He believes it is an important long-term perspective that he would like to see addressed.

The amended motion failed, with Senator Nelson recusing herself.

Mr. Sacks noted that an element of the investment belief surrounds disclosure of the risk, so partners would need to be asked a series of questions and describe their action plans to address the risk. Mr. Fox said he believes the decision is fairly significant, and he would appreciate a work session around the process. Ms. Whitmarsh said the disclosure issue may be tough for companies to quantify, and it will require quite a bit of dialogue and definition. Staff will view this investment belief as aspirational in the short-term and determine what to ask and what is answerable. She noted that there is a lot of movement in the investment community to develop a matrix.

Representative Ormsby said he appreciates that there are other issues, aside from sustainability, enumerated by Mr. Masten, and he is curious about what those might be globally, whether it is unrest in the Middle East, child labor, etc. He is not requesting an exhaustive list but is curious about what other broad descriptions there might be that could affect investment activities. Mr. Longbrake said the belief takes a long view of what is happening in the future, and is a way of disciplining the Board to get away from the actions of the moment and understand bigger picture issues.

The original motion carried, with Senator Nelson recusing herself.

EDUCATION

CEM Benchmarking Results and Cost Comparison

Mr. Heale discussed the results of WSIB's benchmarking report for the period ended December 31, 2013. He described that CEM uses a database of 168 U.S. pension funds, 79 Canadian funds, 55 European funds, and 4 Asia-Pacific funds with total participating assets of \$3.1 trillion, \$548 billion, \$2.0 trillion, and \$90 billion respectively. From the database, a custom peer group was used to compare with WSIB's performance and costs. The group was comprised of 19 U.S. sponsors (a mix of 6 of the largest corporate sponsors and 13 public sector sponsors) with a median size of \$56 billion, compared to WSIB's \$73 billion for the reporting period, which also had a reasonable asset mix match with the WSIB for more meaningful comparisons.

The key measurements in the report are: 1) Returns—why they differ from others and what was the impact of policy mix and implementation decisions?; 2) Net Value Added—are implementation decisions adding value?; 3) Costs—are they reasonable?; 4) Cost Effectiveness—does paying more get you more?; and 5) Risk—How much to add value and risk of policy mix?

The WSIB's 5-year net returns were positive in all asset classes, with less net return than peers in public equity, fixed income, and private equity, but more in real estate. For the longer period (a 19-year history of CEM's database and WSIB's participation to which the private equity adjustment could be applied), WSIB's net return, policy weight, and net value added were all above its peer group.

Mr. Sacks asked if there are any results and comparisons to peer groups to which the Board ought to exercise caution. Mr. Heale said caution should be exercised in examining the value-added comparisons because the WSIB does not do hedge fund investing and, over the 5-year period, there was quite strong positive value added to the peer group from hedge funds. He said while all time periods are important, looking at the long-term time periods are most important for long-term investors, such as the WSIB. A discussion ensued on the impact of the 2008 downturn, asset allocation mixes, and private equity performance.

Mr. Heale said that WSIB investment costs were \$407 million or 58.7 basis points (bps) in 2013, compared to the peer group costs of \$550 million. WSIB has less external active management and has a structural advantage by not having fund of funds in private markets. WSIB also saved by paying less than peers for oversight, custodial, and other costs.

For the 19-year period, WSIB's net value added versus excess cost shows it is in the upper quadrant for cost effectiveness. For the 5-year period, there is less value added, but the program is still low cost.

Mr. Heale said in comparing risk, WSIB is at a 12.7 percent risk level compared to the peer level of 10.5 percent. He said the WSIB's higher risk level is due to the private equity and real estate components of its asset allocation.

Treasurer McIntire thanked Mr. Heale for the report, and for the inclusion of the private equity adjustment to make comparisons more equal.

[Ms. Holman left at 1:45 p.m.]

STATE ACTUARY'S UPDATE

Mr. Smith provided an overview of services provided by the Office of the State Actuary (OSA), which promotes the security of public employee benefit programs including state pension and retiree medical plans, and the Guaranteed Education Tuition (GET) program.

Mr. Smith reported on the GET program's latest funded status and asset allocation. He said that as of June 30, 2014, the GET program is 105.8 percent funded with a reserve of \$161 million, which is improved since the last measurement, due to lower assumed tuition growth and higher than expected investment returns of 16.4 percent. He noted that GET funds are invested separately from the CTF. Its allocation is comprised of 60 percent equities, 20 percent U.S. Treasury Inflation Protected Securities, and 20 percent fixed income. The assumed rate of return is 5.5 percent. OSA reviews this assumption annually to ensure its reasonableness and also looks at WSIB's capital market assumptions. He said the GET asset allocation study may be on the Board's December meeting agenda.

Mr. Smith reported on the state pensions' long term economic assumptions, demographic experience study, membership, financial condition, and litigation.

Mr. Smith said assumptions on inflation, general salary growth, investment return, and growth in system membership are reviewed annually. OSA simulates future returns using WSIB's capital market assumptions. OSA projects out over a 50-year time period to reach a recommended rate of return assumption for pension funding. OSA conducts a demographic experience study every 6 years. In the study OSA compares actual to expected experience to ensure demographic assumptions remain reasonable. The latest study shows that people are living longer and retiring later, which impacts plan funding and contribution rates.

Mr. Smith said there are six open pension systems with both defined benefit and hybrid (defined benefit/defined contribution) plans, which cover all general government; school; and police, fire, and public safety employees in the state, except the first-class cities (Seattle, Spokane, and Tacoma). There are nearly 291,000 active members and 150,000 annuitants at June 30, 2013. Nearly three-quarters of active members are within the Public Employees Retirement Systems (PERS) 2 and 3, Teachers Retirement System (TRS) 2 and 3, and School Employees Retirement System 2 and 3, and the average age of all active members is 48 years, with 12.4 years of service. The PERS1 and TRS1 systems have the most annuitants, but the PERS 2/3 annuitant percentage is growing larger, as PERS2 was opened in 1977.

Mr. Smith said the plans are well-funded overall at June 30, 2013. The funded status fell from the last measurement due to assumption changes from the experience study, but the market value of assets increased more than expected for the year. If the systems were combined as though there were one system, the funded status would have gone from 101 to 94 percent from June 30, 2012, to June 30, 2013. This is a hit in the short-term but will balance out in the long run when increased contributions follow through. On a system by system basis, every system is fully funded except PERS 1 and TRS1. Mr. Smith reviewed historical funded status and an analysis of funding status using different interest rate return assumptions. Mr. Sacks pointed out that the historical

funded ratio percentage can be deceptive at the point in time they are adjusted for assumption updates. He questioned whether there could be something done to make adjustments consistent to determine if things are truly better or worse. Mr. Smith said he has not seen historical funded status results normalized based on assumption updates, but the longer-term history provided helps identify trends in funding progress.

Mr. Smith discussed activities in dealing with the Plan 1s' unfunded liability and expected contribution rate increases, and he provided an update on ongoing litigation and anticipated legislation. A Board discussion ensued regarding "funding versus accounting" methodologies, valuations, and reporting timelines.

QUARTERLY DISCUSSION OF MARKETS

Mr. Bruebaker reported that the second quarter was a really good quarter for returns, as was the one-year period. The CTF earned in excess of 8 percent in every time period. It is up 3.96 percent for the 3-month period ended June 30, 2014, and up 17.06 percent for the year ended June 30, 2014. He said the equity markets are flat to slightly down since the quarter end. The since inception return is 8.98 percent as of June 30, 2014, and was up 9 bps from the end of the first quarter. The implementation value added analysis has two components: allocation and manager decision. Mr. Bruebaker reported that performance was not hurt by either component. An overweighting to public equity assisted performance during the quarter by 3 bps, and the manager decision assisted by 26 bps from private equity, 9 bps from public equity, 8 bps from fixed income, 6 bps from real estate, and 3 bps from tangible assets.

Mr. Bruebaker said the portfolio is positioned well for the long term. The WSIB is underweight in public equity compared to other large institutional investors, and it hopes to see the majority of the return from private equity. Mr. Bruebaker cautioned that some peer pension organizations report gross returns, and the WSIB reports net of fees.

OTHER ITEMS

2015 Meeting Schedule

Ms. Whitmarsh introduced the proposed 2015 meeting schedule, which includes a two-day Board meeting in December. She said the Board typically does not meet in March, August or October.

**Mr. Fox moved the Board adopt its 2015 meeting schedule.
Treasurer McIntire seconded, and the motion carried unanimously.**

EXECUTIVE SESSION

Chair Frost announced the Board would go into executive session to review and discuss the performance of Board members and of the Board. She said the executive session was expected to last about 15 minutes, at which time the Board would reconvene in open session.

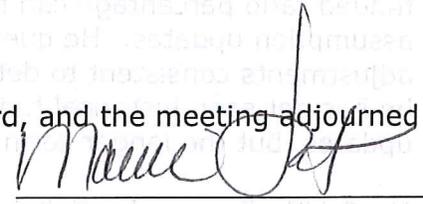
[The Board went into executive session at 2:28 p.m., and reconvened in open session at 3:24 p.m.]

Board Self-Evaluation

[Messrs. Longbrake, Nakahara, Nierenberg, and Seely left at 3:13 p.m.]

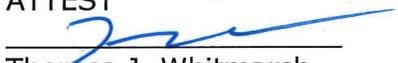
Non-Voting Board Member Evaluation

There was no further business to come before the Board, and the meeting adjourned at 3:24 p.m.



Marcie Frost
Board Chair

ATTEST


Theresa J. Whitmarsh
Executive Director