WASHINGTON STATE INVESTMENT BOARD
Board Meeting Minutes
June 18, 2015

The Washington State Investment Board met in open session at 9:31 a.m. in the boardroom at 2100 Evergreen Park Drive SW, Olympia, Washington.

Present:	Marcie Frost, Chair Kelly Fox, Vice Chair Arlista Holman Judy Kuschel Bill Longbrake (via teleconference) George Masten Treasurer Jim McIntire Stephen Miller Richard Muhlebach Bob Nakahara David Nierenberg (via teleconference) Joel Sacks
Absent:	Senator Mike Hewitt Representative Timm Ormsby Jeff Seely
Also Present:	Theresa Whitmarsh, Executive Director Gary Bruebaker, Chief Investment 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 Beth Vandehey, Risk and Compliance Director Kristi Haines, Confidential Secretary Mary Lobdell, Attorney General's Office Jeff Allen, Raintree Partners Darryl Flay, Essential Living Johnny McCarthy, HUBB NYC Brian "Bub" Nickel, Urbanest Australia Pat Zilis, Hometown America

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

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

ADOPTION OF THE APRIL 16, 2015, MINUTES

Vice Chair Fox moved to adopt the April 16, 2015, minutes. Ms. Holman seconded, and the motion carried unanimously.

EXECUTIVE DIRECTOR'S REPORT

Ms. Whitmarsh reported the July Public Markets and Private Markets Committee meetings are cancelled. The Board annual planning session will be held on July 14-16 at Alderbrook and will focus on risk. Ms. Whitmarsh said two of the meetings she participated in recently were focused on improving investor dialogue. One was the Society of Corporate Secretaries and Governance Professionals, which is comprised of corporate secretaries who serve as legal counsel to corporate boards primarily around the areas of governance and proxies. The Society provides deep insight on how corporate boards operate and is building strong relations with the investor community. The group is holding its annual meeting in Seattle this fall, and Ms. Kate Sandboe, Corporate Governance Officer, plans to attend.

Ms. Whitmarsh noted the Fisher Lynch annual activities, which were detailed in her written report. She reported that Fortress Transportation & Infrastructure Investors LP went public, as anticipated, and is the first publicly-held investment in the Tangible Assets portfolio. Ms. Whitmarsh said she is in the final stages of the recruitments for the Chief Operating Officer and Institutional Relations Director positions. There were three finalists for each position, and one candidate from each of the recruitments withdrew. Reference checking is being conducted on the remaining candidates, and she hopes to be able to make final offers within a few weeks. Tunlaw Partners was the selected executive recruiter used from the WSIB's recruiter pool. She noted the work done with Moran Consulting provided good guidance to Tunlaw by having core competencies available for each of the positions.

[Treasurer McIntire arrived at 9:37 a.m.]

Ms. Whitmarsh introduced new staff members, Ramona Nabors and Jessica Gomez, both working within the Finance and Administrative Services unit. She said that Ross Reed has returned to the WSIB as the Administrative Assistant for Real Estate in Seattle.

Ms. Whitmarsh said a number of media interviews had been conducted with WSIB staff and resulting stories should be published soon. Mr. Bruebaker was interviewed by *FundFire* for a story related to environment, social, and governance (ESG) issues; comments were provided related to a story on Walmart allowing shareholders to vote on electing an independent chairman; and for *The Seattle* Times, relaying the WSIB's position to the upcoming CEO compensation survey of Washington-based companies. The Board's updated Proxy Voting guidelines allow for staff to discuss the WSIB's position.

Ms. Whitmarsh reported on the Securities and Exchange Commission (SEC) investigation on private equity fees. She said staff had heard nothing else from WSIB's partners or the SEC. She said the Compliance unit looks at private equity contracts and tests fees, and has communicated to the general partners (GPs) that WSIB relies on their audited financials and not on underlying data as staff is unable to review that as contracts are often silent on accounting processes. Compliance will inquire with partners about SEC exams and request any results and mitigating steps if there was an SEC finding, and also look at overall compliance with SEC. Mr. Bruebaker said staff is very active with the Institutional Limited Partners Association and there are also discussions on the subject within the National Association of Senior Investment Officers—the topic is very much on the radar of these groups. He said the biggest impact the WSIB can have is in how it writes-up documents and in looking for ways to get more money back for members by being vigilant with transaction fees.

AUDIT COMMITTEE REPORT

Treasurer McIntire reported the Audit Committee met on June 2 to review the annual report on compliance with the Board's Conflict of Interest Policy, prepared by an independent CPA firm. The report contained exceptions regarding timely submission of Statements of Financial Affairs, policy certifications, and training; management indicated all issues have been corrected since the review.

The Committee received a report on three internal audits that were performed by Peterson Sullivan, as an external audit service provider. To supplement the internal audit resources and ensure the completion of the Board-approved Fiscal Year 2015 Audit Plan, the Board contracted with Peterson Sullivan to review three areas of the WSIB's operations: 1) asset allocation and rebalancing, 2) travel expenditures, and 3) Commingled Trust Fund monthly pricing and unitization. The results were positive and no recommendations were noted in the review of these areas.

The Committee also received an internal audit report on the WSIB's Tangible Assets investments. The overall results were positive and the report contained one recommendation to enhance controls over the due diligence and monitoring processes. Management agreed with the recommendation and the Committee will receive a status on its resolution at its September meeting.

The Committee received updates on the status of prior audit recommendations; annual audit plan status; investment referrals; and engagement terms for the Fiscal Year 2015 Independent Financial Statement Audits.

Fiscal Year 2016 Internal Audit Plan

The Audit Committee also reviewed the Fiscal Year 2016 Annual Internal Audit Plan and the audit selections made using a rigorous risk assessment process.

> **Treasurer McIntire moved that the Board adopt the Fiscal Year 2016 Internal Audit Plan. Vice Chair Fox seconded, and the motion carried unanimously.**

The Committee received an overview of the WSIB's alternative asset valuation practices. The WSIB staff described the importance of valuations, the need to have a reasonable assurance in the accuracy of valuations, and the monitoring the WSIB conducts in order to have comfort on the accuracy.

Finally, the Committee met in executive session to review the performance of a public employee.

ADMINISTRATIVE COMMITTEE REPORT

Chair Frost reported the Administrative Committee met earlier this morning.

Board Self-Evaluation Process

The Committee considered the Board Chair's recommendation to continue the Board's Self-Evaluation process, using the same format as last year so that it serves as a base line, and conduct the review at the September Board meeting.

> **Chair Frost moved that the Board accept the Administrative Committee's recommendation to conduct its self-evaluation following the same process as last year. Vice Chair Fox seconded, and the motion carried unanimously.**

Assistant Attorney General's Report

Ms. Lobdell reported at the April Board meeting the WSIB had been dismissed from the Seaport Village litigation in Delaware. The WSIB was subsequently served with a subpoena for documents and the documents were provided to the plaintiff in the litigation. A deposition of a staff member is also being scheduled.

Chair Frost reported that Ms. Vandehey presented policies that fall within the Administrative Committee's responsibility, with both substantive and technical changes, as part of the 3-year review to ensure they remain relevant and appropriate. Action on these policies will be considered later on today's agenda along with others coming out of the Private Markets Committee. Ms. Verme reported the appropriated budget has a projected balance of $2.7 million (13 percent savings), and the non-appropriated budget has a projected balance of $38.6 million (11.1 percent savings).

Chair Frost said the Administrative Committee met in executive session to discuss the Executive Director evaluation and reappointment. The Board will also have an opportunity to discuss the evaluation, reappointment, and recommended action later on today's agenda.

3-YEAR POLICY REVIEW

Board Policy Review Introduction

Ms. Vandehey presented the 3-year policy review, which is part of the Board's governance processes. The last review was done in June 2012 and any policy not revised or reviewed during the intervening years was looked at by staff and recommendations are proposed for technical or substantive policy changes, or no changes. There are no suggestions for rescinding any policies this review cycle.

Substantive Changes

Ms. Vandehey presented the Public Records Policy 2.00.250, which has substantive changes that include reordering the language for clarity, adding references, and including details on disclosure exemptions relating to employee and Board member personal information, real estate appraisals, and privileged attorney/client information.

Mr. Sacks moved that the Board adopt the proposed substantive changes to Policy 2.00.250. Ms. Holman seconded, and the motion carried unanimously.

Technical Changes
Ms. Vandehey presented the recommended technical changes to the following policies: Private Markets Committee Charter 1.00.140; Executive Director Charter 1.00.180; Delegation of Authority Policy 1.05.100; Code of Conduct Policy 2.00.150; Communications Policy 2.00.175; Board Operations Policy 2.00.210; Board Member Travel and Expense Reimbursement Policy 2.00.260; Advisory Board Policy 2.00.900; and Private Equity Investment Program Policy 2.10.700. She said the proposed revisions include updating statutes, wordsmithing the language to improve comprehension and readability, deleting references, streamlining and adding clarification and role definition, grammar edits, updating titles, and deleting an unnecessary appendix. Where necessary, policies have been reviewed at the Committee level prior to coming to the Board.

Mr. Sacks moved that the Board adopt the proposed technical revisions to policies 1.00.140. 1.00.180, 1.05.100, 2.00.150, 2.00.175, 2.00.210. 2.00.260, 2.00.900, 2.10.700. Treasurer McIntire seconded, and the motion carried unanimously.

No Change
Ms. Vandehey presented policies that staff is not recommending any changes to for the Board to reaffirm its review, including: Service Provider (Vendor) Selection (and Ongoing Interaction) Policy 2.00.230; Human Resources Policy 2.01.000; Cost-of-Living Increases Policy 2.01.050; Investment Officer Compensation Policy 2.01.100; and Equal Employment Opportunity/Affirmative Action Policy 2.01.150.

Mr. Sacks moved that the Board reaffirm approval of policies 2.00.230, 2.01.000, 2.01.050, 2.01.100, and 2.01.150, with no recommended changes. Ms. Holman seconded, and the motion carried unanimously.

PRIVATE MARKETS COMMITTEE REPORT
Mr. Masten reported the Private Markets Committee met on June 4 to consider two tangible assets investment recommendations and proposed policy revisions.

Tangible Assets Investment Recommendation – ISQ Cube Hydro Co-Investment Fund, L.P.

Mr. Masten moved that the Board invest $200 million, plus fees and expenses, in ISQ Cube Hydro Co-Investment Fund, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Treasurer McIntire seconded the motion.

Mr. Masten reported this will be a special purpose vehicle to co-invest in hydropower deals throughout the U.S. and Canada with the ISQ Global Infrastructure Fund. Although this is a first-time team in this strategy, I Squared and Cube Hydro teams have been in the hydro industry for many years. The investment is attractive, as most forms of renewable power generation require subsidy regimes, due to the higher cost of renewable generation. Hydropower is the exception and is the cheapest and lowest cost form of electricity generation that can be delivered at scale to the grid. The proposed investment is consistent with the Board-approved 2015 tangible assets annual plan. He said the recommendation is based on I Squared's experienced team with deep connectivity to government and industry, hydropower being a low-cost energy source with attractive economics and a renewable energy source that does not require subsidies, the scope for significant operational improvements, enhanced exit rights versus the ISQ Fund, the "untapped" opportunity that non-powered dams represent, complementary fit within the tangible assets portfolio, and other factors relative to the recommendation.

Ms. Holman stated a concern with the lack of government funding for the infrastructure and maintenance of dams. She asked that staff ensure partners appropriately assess the structure of dams during their selection process, as this presents liability and reputation risks to the fund.

The above motion carried unanimously.

Tangible Assets Investment Recommendation - Twin Creeks Timber, LLC

Mr. Masten moved that the Board invest $300 million, plus fees and expenses, in Twin Creeks Timber, LLC, subject to continuing due diligence and final negotiation of terms and conditions. Ms. Kuschel seconded the motion.

Chair Frost announced the Board would go into executive session to discuss financial and commercial information relating to an investment since public knowledge regarding the discussion would result in loss to the funds managed by the WSIB or would result in private loss to the providers of the information. She said the executive session was expected to last until about 10:15 a.m. at which time the Board would reconvene in open session.

[The Board went into executive session at 10:05 a.m., and reconvened in open session at 10:15 a.m.]

The above motion carried unanimously.

PUBLIC COMMENT

Ms. Alyssa Giachino, UNITE HERE, and Mr. Juan Sanchez, Palms Casino, provided comment on their communications with TPG and attempts to contact Leonard Green (both of whom are private equity partners with the WSIB) related to obtaining their assistance in achieving labor peace with Palms Casino management. They urged the WSIB engage with its managers to further encourage these communications. A number of handouts were distributed to Board members.

[The Board took a recess at 10:19 a.m., and reconvened in open session at 10:35 a.m.]

PERFORMANCE REPORTS

Commingled Trust Fund

Mr. Bruebaker reported the Commingled Trust Fund (CTF) was up 2.63 percent for the quarter ended March 31, and up 8.12 percent for the year. The equity markets are up 2.9 percent since the quarter end. The CTF since inception return was 8.86 percent as of March 31. He said that WSIB continues to underperform its implementation value added benchmark, but beat two TUCS universes in every time period. The WSIB's allocation decision hurt performance by 4 basis points (bps) due to non-U.S. holdings, and strong outperformance in the U.S. over the last few years. The portfolio was overweight public equity while it underperformed, which cost 3 bps, and private equity was underweight which cost another 1 bp. For manager decisions, private equity managers underperformed significantly against the benchmark by 106 bps, which is not unusual during public markets' rallies. The real estate managers outperformed by 65 bps, which offset the private equity underperformance and speaks to the benefit of diversification within the fund. Mr. Bruebaker said the portfolio is positioned well for the long-term and the CTF performance over the long-term continues to be in the top decile compared to other public funds.

Private Equity

Mr. Ruggels reported on the private equity portfolio for the period ended December 31. He provided a summary of the information contained in Hamilton Lane's full quarterly report. He reviewed the performance in each of the strategy areas (mega/large corporate finance, venture capital/growth equity, small/mid corporate finance, distressed/credit) and performance of the total private equity portfolio against the Russell 3000 plus 300 basis points benchmark. He noted that venture/growth had very strong one-year performance, however for the 10-year period, venture/growth is the lowest performing strategy sub-sector in the portfolio. Distressed returned 4 percent for the one-year, but returned 10 percent over the 10-year period. He noted caution in placing too much attention on short-term periods, although they provide information on the current environment. The best performing strategy over the 10-year period was small-mid corporate finance with a 16 percent return. Mr. Ruggels noted the portfolio is heavily weighted toward larger funds. Hamilton Lane classifies corporate finance funds by fund size as follows: Mega – over $7 billion; Large - $3 to $7 billion; Mid - $1 to $3 billion, and Small – below $1 billion. He said the corporate finance portfolio has had relatively consistent performance in the low to mid-teens over each of the time periods with less volatility than venture/growth. In response to Mr. Sacks' question if the returns are unique to the time periods looked at, Mr. Ruggels said that is somewhat true, but returns for corporate finance tend to be more stable over time, while venture/growth is more volatile, and distressed is fairly consistent but had a tough last year. He said performance for the 10-year period beats the benchmark but does not in the shorter-term periods. When public markets have a strong run, it is harder for private markets as they lag in the short-run. He noted the benchmark is all U.S., and the WSIB portfolio is one-third outside of the U.S. The U.S. has outperformed strongly over the last few years. Over the past year, the drop in oil prices and depreciation of many foreign currencies versus the U.S. dollar have created performance headwinds for the portfolio. Mr. Fox asked if there is a more relevant benchmark to compare the WSIB's performance against. Mr. Bruebaker responded that staff and the Board periodically look at alternative benchmarks, as we want the most relevant comparison. Staff is looking at a possible proposed change toward the end of 2015, but wants to avoid changing it too often.

Mr. Ruggels reviewed cash flow over the past 4-year period, including capital paid in and distributions received. He said the program has been consistently and strongly cash flow positive for the past 4-1/2 year period. He commented on cash flow activity occurring in the individual years included. Investment pace has been relatively consistent over the past few years while distributions have been increasing as general partners are taking advantage of liquid markets and attractive valuations. Mr. Nierenberg said there is a lot of good news around private equity and cash flow, but his concern is the rate at which is the cash is being distributed back relative to the pace that capital is being drawn for investment is resulting in the private equity allocation dropping down below its 23 percent asset allocation target. He noted it is important to have a contingency plan in place so the WSIB can take advantage of the market when a correction takes place and keep the portfolio near its target allocation. Mr. Ruggels noted that private equity as a percentage of the total portfolio can be difficult to manage and often is under or over its target. He said the good news is there is currently nearly $11 billion in undrawn commitments which is in place and available to be drawn for investment when the timing is right.

Real Estate
Mr. Draper reported on the real estate portfolio for the period ended December 31. He said the one-year net return was 17.4 percent and 6.9 percent of that was income. There was 10 percent annual appreciation during 2014, which is high and might make one suspicious of market conditions. He said two things going on in the market place are high valuations and low interest rates for debts which, when combined, provide an attractive return environment. The returns over the 5-, 10-, and 15-year periods were 14.2 percent, 9.8 percent, and 11 percent, respectively. The portfolio increased by $1.5 billion due to some new investments and appreciation, but the aggregate leverage level of the portfolio remained essentially the same due to paying off debt and refinancing existing situations, adding debt back in.

In terms of performance, Mr. Draper reported that almost everything did well. In particular, results from a number of partners were positive because they sought development opportunities earlier in the market cycle than their peers, which resulted in properties being delivered in a strong part of market cycle rather than once the market was past the top. There is strong investor demand for properties of all kinds, which affects valuations. Geographically, the major global cities perform better during periods like this which is built into the WSIB's strategy and was not proven wrong. Evergreen, one of the intermediary groups, has, in particular, had success with development projects coming on line; specifically, student housing and apartments in London and California, respectively. Their Florida land development company has also increased in value, recovering from the downturn. PEC's Los Angeles-based industrial operator delivered new product to the market that has been successful. PEC's strategy of seeking a mix of property types in an urban setting has been very successful in New York City and Chicago over the past two years. Calzada has experienced strong returns from manufactured housing, and Union Square has benefitted from an unprecedented demand from investors for office buildings in Seattle. Mr. Draper reported that Central European retail real estate did not perform well, that emerging markets underperformed last year, and the fall of currency values vis-à-vis the dollar impacted returns.

Mr. Draper said that, despite his suspicions about the market conditions and examining what happened after the dot-com bubble burst, currently, real estate fundamentals are broadly positive. Mr. Muhlebach asked how the Real Estate Operating Companies (REOCs) performed compared to the other real estate fund investments. Mr. Draper said REOCs returned 19.7 percent for 2014; whereas, fund investments returned 2.5 percent. Ms. Kuschel noted the size of unfunded commitments and asked when that money might be put to work. Mr. Draper said that commitments are open-ended and he has instructed all WSIB partners to think like the multi-cycle investors they should be and only make quality investments (specifically in terms of location) when things feel frothy in terms of pricing.

Tangible Assets

Ms. Will reported on the tangible assets portfolio for the period ended December 31. She has been managing the portfolio for three years. The Board approved over $2 million in commitments through December, and only 19 percent has been drawn. The portfolio is valued at $1.3 billion. She said tangible assets portfolio inherited the legacy portfolio, which represents 72 percent of the overall portfolio size. The one-year return outperformed its CPI +400 benchmark, but underperformed over the 3-year period. The legacy portfolio outperformed for the one-year by 1.3 percent, and the rest of the portfolio returned 14 percent. She said if she were to take out the assets that will not be part of the future portfolio, the 3-year performance would have been in-line with its benchmark. Ms. Will discussed the portfolio's construction and commodity exposure within it. She described how up- and mid-stream investments work counter-cyclical to each other, using oil and corn as examples, and discussed the use of futures contracts for hedging prices.

EDUCATION REPORTS

Russell Institutional Summit

Mr. Nakahara reported on his attendance at the May 2015 Russell Institutional Summit. He noted some key takeaways from the fiduciary responsibility session, relating to the attitudes of the SEC regulators and courts. He noted the courts are starting to look very closely at underlying intents and investment committee decisions. He said there is an emphasis on beneficiary value rather than minimizing fiduciary liability, which WSIB should keep in mind as it discusses risks. His other takeaway related to governance challenges. He noted institutional investors are looking toward strategic overarching goals, such as investment beliefs. He feels the WSIB's beliefs are very broad brushed but there is a lot of looking toward shorter term beliefs around yield curves and portfolio construction to help staff. While he is not advocating it, he noted this is an evolving area of fiduciary responsibility. Finally, he noted the general session he attended with startling statistics on demographic changes around the world, which has experienced a 3x increase in population over the past 70 years, with the majority of increases occurring in the least developed countries. This has a lot of implications for investment opportunities.

International Centre for Pension Management (ICPM)

Chair Frost reported that she, Ms. Whitmarsh, and Mr. Steve Lerch, Economic and Revenue Forecast Council, attended the ICPM Discussion Forum June 7-10, and Chair Frost also attended the ICPM Board meeting, as one of its members. She said ICPM is in the process of re-branding itself, having gone through a recent leadership change and is looking at other mature organizations to help that effort, creating a new strategic plan, and collecting the right research partnerships. She said the discussion is research-intensive, and attendees must get comfortable with the materials before participating at the Forums, which are held twice a year. The June Forum focused on long-horizon investing. She said the participating funds included Canada, U.K., Amsterdam, Australia, New Zealand, and the U.S. For the purposes of the discussion, long-horizon was defined as a period of time longer than five years. The first morning participants received an update from those leading the Focusing Capital on the Long-Term initiative. The key takeaway was there are certain behaviors that foster a long-term investment outlook, including having investment beliefs, risk appetite statements, an investment mandate, use of appropriate benchmarks, and evaluations and incentives for internal and external managers for both short and long-term results. Chair Frost said it feels like Washington is doing the right things in these areas. She said session reports will be helpful as that information can be distributed as desired.

RFK Compass
Treasurer McIntire reported on the RFK Compass Conference he attended June 15-16. The conference is in its sixth year and is affiliated with the RFK human rights effort. It is by invitation only and had about 150 participants. He said several Chief Investment Officers (CIO) from various funds attended, as well as some state treasurers/comptrollers and members of UNITE HERE. He said the conference focused on getting people excited about investing in companies with good track records on ESG issues, with a specific focus on issues that affect human rights. He said that Mr. David Bonderman spoke about TPG at the conference; there was a discussion also around the SEC issue raised earlier in today's Board meeting, and with CIOs about what the opportunities are for pension funds and fiduciaries to pursue ESG issues with investment opportunities if they are not doing active management. The dialogue was around what you can do on affirmative basis, with some discussion around private equity dialogue with managers and opportunities for having ESG discussions and how it affects an organization's risk profile. He added the conference provided a different mix of participants than typically seen at other industry conferences.

[The Board took a recess at 11:46 a.m., and reconvened in open session at 12:10 p.m.]
[Treasurer McIntire left at 12:10 p.m.]

EDUCATION SESSION
Residential REOC CEO Panel
Mr. Bruebaker introduced the panel discussion, which is a continuing set of educational discussions requested by the Board to gain a better understanding of the REOCs' strategies and relationships. He said the WSIB's REOC strategies are very unique and complex even within the investment community. The WSIB's real estate consultant has stated on numerous occasions that many other public institutional investors have tried to copy and implement WSIB's unique REOC strategies but, to date, they have not been successful to the extent the WSIB has.

Mr. Zilis, Hometown America, introduced the session, which focused on residential property, which is an essential component of any real estate strategy since people need a place to live. The assets tend to provide a stable, long-term cash flow, which fits nicely within the WSIB's strategy for real estate.

Raintree Partners

Mr. Allen, Raintree Partners, said his company is focused on apartments in California, and both develops new properties and invests in existing properties and then adds value. He said the market is a high barrier-to-entry and benefits from strong demographics and above-average job growth. He provided an overview of Raintree Partners, stating it is only involved in major California markets, with 23 properties, two projects under development, and growing its 3,900 units. Their occupancy rate is 95 percent, which is consistent with the market. He said the bulk of their acquired properties are 1970s to 1990s vintage, and they enhance yields by rehabilitating and repositioning the properties, targeting a workforce-oriented tenant base. He said rehabs are usually done as units turnover unless a major retrofit is needed. He said the properties have full amenities, with socializing space being an important element. He said, to date, their development projects are located in Northern California. In response to Board members' questions, Mr. Allen discussed the tenant base demographics and geographic infrastructure sought; that he expects, going forward, the split between acquisitions versus development properties to be a 60/40; and said that apartments are Raintree's area of expertise and they continue to increase their efforts to make deals that make sense. He said Raintree is constantly chased after by people wanting to buy apartments, as California is now the seventh largest economy in the world, with a current average rent growth of 6.2 percent per annum versus 4.4 percent nationally. However, he expects the projected rent growth to slow over the next 5 years. He noted that home ownership is the lowest it has been in 25 years, at 63.7 percent and, as that continues to decline, the renter pool increases. Another benefit is the amount of capital in the apartment business, but low cap rates are a risk. Mr. Allen provided examples of Raintree's projects.

Essential Living

Mr. Flay, Essential Living, introduced himself and provided an overview of his background and experience. He said that Essential Living is a residential property development company, formed in September 2012, which is based and has its focus in London. Mr. Flay described Essential Living's process for land acquisition; planning and entitlement; development and construction; and marketing, lettings, and operations. He said the private rental sector is the fastest growing property sector in the U.K. In 1988, legislation removed rent control and tenure security, which has caused rentals to grow from a 7 percent low to 25 percent of current residential stock. The market space is largely non-professional landlords and there is a massive housing shortage in London, which has been consistently undersupplied for 25 years. He said the average one-bedroom apartment in an average part of London costs $750,000, with an average rent of $2,000 a month. He said that Essential Living is the first "ground up" rental product in the market, and they expect to have 1,500 units completed by 2018. He said it is an emerging part of the market with recent achievements made with local and national governments, which has assisted with policy development. He discussed the vast rental market environment in London, and future expectations for the company's accomplishments. In response to Board members' questions, Mr. Flay said most of the sites will be built from the ground-up, an average size of 150-300 units, and will primarily target couples in their mid-30s. He said Essential Living has some competition, which it encourages, as it drives the market forward and there are sufficient development opportunities to be had. He said cap rates are at 3 or lower, and he expects a flood of institutional money to come into the sector. He said Essential Living is trying to persuade the government to provide financial breaks and develop incentives to aid development of this type of housing.

HUBB NYC
Mr. McCarthy said HUBB NYC focuses on retail and apartment buildings in Manhattan. He said this market is fairly unique, but similar to the previous two presenters' markets in that there is a real supply and demand imbalance. He said HUBBNYC has a value-add approach, and buys old buildings with poor operations and improves them to generate high-quality, long-term cash flows. Mr. McCarthy provided a history and overview of HUBB NYC. He described the demographics of Manhattan apartments and renters. He said HUBB NYC looks for key neighborhoods and streets for its properties, and local market knowledge is important. He provided before and after property examples. In response to questions from Mr. Muhlebach, Mr. McCarthy said a big driver for targeting properties is the ground floorretail, and they treat tenants they inherit who are in rent controlled units well and then step in to improve the apartment when those tenants decide to leave.

Urbanest Australia
Mr. Nickel, Urbanest Australia, provided an overview of the company which focuses on student housing. He said Urbanest targets high growth international universities' markets. He reviewed their portfolio holdings and growth within both existing and new properties over the past 7-year period. It is anticipated the portfolio will have at 6,000 beds at full capacity, and as it grows, services to residents will be increased. He discussed that universities have to be competitive in order to entice students to their campuses, and Australia is ranked fourth globally in international student population. He discussed enrollment trends by state, the countries students come from, and how changes in visa regulations have affected student growth. He discussed misconceptions about students relating to their ability to pay rent, predictableness of their income, and property damage they cause, and Urbanest's actual experience with those issues. He reviewed the Sydney and Melbourne sub-markets, property locations, and sample projects and the differences within each. In response to Mr. Muhlebach's questions, Mr. Nickel said there are no projects on public/private partnership lease, and Urbanest works with the universities on how to market the housing. He said it takes about 2-3 years for a property to fill up, and explained how the academic year (which differs from the U.S.) affects leasing and cash flow.

Hometown America
Mr. Zilis discussed Hometown's strategy in acquiring, developing, and managing land-lease manufactured housing communities. He described how the sub-prime crisis affected the market space, and how the lending environment has changed. In 2011, Hometown decided to re-focus on its core strategy, which is leasing land to homeowners. He described the two segments in manufactured housing communities—age-qualified and all-age. Hometown has exited ninety of its all-age communities to improve its focus and be more in-line with the WSIB's goal of having stable long-term cash flow.

Mr. Zilis provided an overview of Hometown and their relationship with the WSIB. He discussed the property locations, and the goal for communities to be lifestyle focused by having on-site amenities that encourage social activity. He said they have a 95.2 percent occupancy rate across the portfolio and do not expect their geographic footprint to change much. He described geographic strategies and provided samples of investments in Chicago, Southern California, and Florida.

In response to Board members' questions, Mr. Zilis described that Hometown has both a custom and "spec" home building programs, and rent control issues are mixed in the different jurisdictions. He said the ability to exit is well taken care of currently by market demand. He said the Florida properties have held up well during episodes of extreme weather and there is a lot of regulation on homebuilding standards.

EXECUTIVE SESSION
Administrative Committee Report (Continued) – Executive Director's Evaluation and Reappointment

Chair Frost announced the Board would go into executive session to review and discuss the performance of a public employee. The executive session is expected to last until about 30 minutes, at which time the Board will reconvene in open session.

[The Board went into executive session at 2:05 p.m., and then reconvened in open session at 2:36 p.m.]

> **Vice Chair Fox moved that the Board reappoint Ms. Theresa Whitmarsh to a new three-year term from October 1, 2015, until September 30, 2018, and forward its action to the State Finance Committee. Ms. Holman seconded, and the motion carried unanimously.**

OTHER ITEMS
Ms. Whitmarsh said the Council of Institutional Investors (CII) executive director Ann Yerger has stepped down. An interim appointment has been made and CII will launch a national search for a new executive director.

There was no further business to come before the Board, and the meeting adjourned at 2:37 p.m.

Marcie Frost
Board Chair

ATTEST

Theresa J. Whitmarsh
Executive Director