

Summary Transcript of KIRO News 7 interview with Joe Dear regarding Lehman Brothers 09-17-08

KIRO: *First and foremost, how much did the State lose and what does that mean?*

JD: We own Lehman Bonds and Lehman Stock and when Lehman went bankrupt on Monday morning, we took a \$130 million hit to all of the assets we manage. That's mostly Fixed Income, but the equity is worth zero. To put that in perspective, we manage \$78 billion of assets for various state programs.

KIRO: *So what does that mean, for state workers and people of the state?*

JD: It doesn't have any immediate impact in terms of contribution rates, risk to our beneficiaries, or to taxpayers. We run a globally diversified portfolio of high quality assets. It's built to withstand the ups and downs that are an inevitable part of risky markets. It's not fun right now, lots of anxiety, but we're very confident of meeting our long-term objective of 8%.

KIRO: *Everybody focuses on how horrible things are right now, but talk to us about the last four years.*

JD: Our returns over the past four years were stunning. In 2007, we made 21% on the retirement funds, which is extraordinary. It is one of the best returns of a pension fund in the United States. But, if you've been in this business awhile, and things are really good, you can expect things will turn. The importance of a diversified portfolio can't be emphasized enough, both for big institutional investors and for individuals. The virtue of diversification is when you take a hit, other things balance it out. For instance, in 2001, when the NASDAQ went down 75% and the equity markets went down 50%, our big loss was -6.8%. That's what diversification does for you.

KIRO: *Talk to us about the other concerns you have out there. What about AIG and WaMu - what do you think?*

JD: We're living financial history; more fun to read about than to experience. But, what's going on now is historic in its magnitude. The credit crisis began, officially, in 2007. It's not over, even with the extraordinary bailout of AIG by the federal government. There will be an enormous amount of deleveraging, and reduction of debt by consumers and by financial businesses. And it will take years for that to work its way through.

KIRO: *What's the answer to what do we do now?*

JD: Bringing this to a close and beginning a recovery, requires that housing prices stabilize - because it's the housing related investments which are driving down the value of the banks and causing them to become bankrupt or in very precarious condition. So, steps the government can take that will stabilize housing prices, are fundamental. With the bailouts all we're doing is attacking the symptoms and trying to contain the damage.

KIRO: *And, how do you deal with those housing prices?*

JD: We're an investment organization and others are going to have to work that out. It appears clear to me that the federal government is going to have to step in and purchase assets to establish a floor and then allow the financial credit of the United States government to assure people that the bottom has been found.

KIRO: *Is it going to get worse or get better?*

JD: It's not over. I wish I could tell everybody to relax and don't worry. It's not over. However, having said that, the nature of our economic system is that there are ups and downs, and when things are up there's euphoria, and when things are down, there's panic. I try to encourage everybody to stay calm and don't make drastic moves. We have an incredible economic system in this country and in the world. It will continue to grow and prosperity will increase. But, for now, we are going to ride a period of great turmoil.

KIRO: *Are there other red flags out there that have your attention?*

JD: I hate reporting losses. But, what really bothers me is CEOs who are walking out with multi-million dollar packages when they failed and destroyed the equity in their company's. That's the thing that just makes me angry.

KIRO: *As the federal government steps in to help bail out some of these companies would you like to see them set some requirements that means failed CEOs aren't going to be making \$20 million this year?*

JD: Look, ordinary people are suffering as a consequence of this. There have to be consequences for the senior executives who led us to this. We will be active as an owner in companies in participating in corporate governance to try to prevent Boards of Directors from creating compensation packages that allow this kind of abuse to occur.

KIRO: *What about WaMu's future?*

JD: WaMu is in a precarious state and I am sure that people are working very hard to try and save the institution. But it's on the brink.

KIRO: *Are there other banks that you feel are in a similar state?*

JD: The credit crisis is not over. The value of the securities related to housing continue to fall, or are not known with precision. The markets very skittish and we don't know how far this will go. But, for the banks, there are protections for individual depositors. So again, there is no reason for individuals to become overly concerned.

KIRO: *This question is one you already addressed, but I want to make sure you say it again, for people looking at their retirement funds and what seems like a huge loss. What's your message for them long term and how the state's investments are really doing?*

JD: Your retirement security is safe. Your pension benefit is guaranteed by the State of Washington. The assets behind this program are sufficient to meet the liabilities. The funds are managed by an independent professional group of investors who have a long term perspective. We have designed a portfolio to be diversified and to help withstand the ups and downs that come from investing in risky markets.

KIRO: *In other words, we will weather the storm?*

JD: We will weather the storm.

KIRO: *One final question. There's a lot of discussion about new regulations. Are there specifics that people should be looking for?*

JD: We see failure of public policy to develop appropriate regulatory mechanisms to protect this kind of event from happening. I'm not saying there will never be losses through regulation, but between adequate regulatory protections and efficient regulatory management of the agencies, taxpayers are going to pay a cost. Nobody likes government regulation if it can be avoided, but sometimes we need it. It really does protect us. In the United States we need a complete overhaul of the regulatory system of the financial services industry. I think the government, with the new president and new congress next year will put that near the top of their agenda.