



BOARD ADOPTED POLICIES

POLICY NUMBER: 2.10.100

EFFECTIVE DATE: 9/20/2007

TITLE: Public Markets Equity – Retirement Funds

SUPERSEDES: 5/17/07

BOARD ADOPTION: 9/20/2007

APPROVED: *Joseph A. Dear*

PURPOSE:

This document outlines the investment policy and objectives for the Public Markets equity segment of the Washington State Investment Board (WSIB) Commingled Trust Fund (CTF). The policy and objectives allow for sufficient flexibility in the management process to capture investment opportunities, yet provide parameters that ensure prudence and care in the execution of the equity investment program.

POLICY:

Strategic Objectives

Within the context of available investment opportunities, the Board's assessment of risk, and the principle of diversification, the WSIB's asset allocation is managed over time to maximize return at a prudent level of risk (RCW 43.33A.110 and 43.33A.140).

To achieve this objective, the Public Markets equity program seeks to:

1. Achieve the highest return possible consistent with the desire to control asset volatility.
2. Ensure protection for long-term liabilities since shorter-term liabilities are more suitably protected by lower volatility instruments such as fixed income securities.
3. Provide diversification to the WSIB's overall investment program.

General Strategies

1. The Public Markets equity portion of the CTF includes strategies in the U.S., international developed, and international emerging markets.

2. A mix of external managers approved by the Board will be used to implement the equity program.
3. Index funds are used in markets that are generally considered to be efficient to promote a diversified structure, while controlling risk and minimizing costs.
4. Active, structured, or specialty managers are used to invest in markets that are less efficient and should actively seek to enhance returns while managing risk.

Investment Approach and Objectives

The Public Markets equity investments are managed to the asset allocation targets and ranges adopted by the Board using a broad global equity benchmark.

A. U.S. Equity

Since the U.S. equity markets are generally considered to be efficient, the domestic equity portfolio invests in traditional index products and enhanced index products. Over time, the domestic equity portfolio should closely track the return of a specified broad U.S. market benchmark, currently the Dow Jones Wilshire 5000 Index.

B. International Equity

International markets are generally considered to be less efficient than the U.S. market; therefore, more active management is included in the approach taken with international markets. The Morgan Stanley Capital International (MSCI) All Country World ex. U.S. Investable Market Index (ACWI ex. U.S. IMI) serves as the benchmark for the WSIB's retirement international equity program.

1. The *international developed markets* portfolio is invested 60 percent in active strategies, 20 percent in enhanced index strategies, and 20 percent in index strategies. The indexed portion represents a diversified core portfolio that closely tracks a broad developed markets benchmark, the MSCI Europe, Australia, and Far East (EAFE) + Canada Investable Market Index.

The enhanced index strategy portion is also part of a diversified core portfolio and seeks to outperform the broad developed markets benchmark, MSCI EAFE + Canada Investable Market Index, by 0.50 percent (50 basis points).

The actively managed portion of the international developed markets program seeks to hire managers that are willing to deviate from the benchmark and, thus, strive to exceed the returns of the passive benchmark net of fees. The active developed managers are benchmarked against the developed markets MSCI EAFE

+ Canada Investable Market Index and may opportunistically invest in emerging markets.

The WSIB seeks to invest approximately 30 percent of the actively managed international developed markets equity assets with growth oriented managers, 30 percent with value oriented managers, and 40 percent with core managers.

2. Since these markets are less efficient than the international developed markets, the entire (100 percent) dedicated international emerging markets portfolio is actively managed.

The dedicated emerging markets allocation may be up to 5% below the relative weighting of emerging markets in the MSCI All Country World ex. US Investable Markets Index. (MSCI ACW ex. US IMI). This allows the emerging markets component to be either underweight or overweight the benchmark weight depending on the amount that developed markets managers invest in emerging markets. The emerging markets component is benchmarked against the MSCI Emerging Markets Investable Market Index (MSCI EM IMI).

Electronically traded funds (ETFs), index funds, futures, forward contracts, options or other low-cost alternatives are allowed to facilitate changes in exposure and to minimize the cost of the reallocations.

- C. Rebalancing: The U.S. and international allocations are managed within the ranges presented below:

United States	benchmark weight +/- 5%
International Markets	benchmark weight +/- 5%

The public equity asset mix is reviewed at least quarterly by the staff and Board. The Board delegates to the executive director the authority to rebalance the public equity asset mix as needed. These targets are long-term and may deviate in the short-term as a result of interim market conditions. Deviations outside the range may require rebalancing. The portfolio will be rebalanced as soon as it is practical with consideration given to market impact and minimizing the transaction costs of implementation and therefore need not occur immediately. Rebalancing within public equity will be consistent with the targets set forth in the Retirement Commingled Trust Fund (CTF) Asset Allocation Policy 2.10.050.

Equity Manager Guidelines

1. Each equity manager has guidelines that describe the general investment approach and strategy to be used in the management of the assigned assets. These guidelines are generally targets and not hard and fast restrictions. Equities are invested based on general allocation targets and market conditions.
2. Permissible public market equity investments include the common and preferred stock of publicly-traded companies in the U.S. and international markets. Managers may use other instruments only in accordance with state law, WSIB policies, contracts, and manager guidelines.
3. The international developed markets managers may invest in emerging markets securities as specified in their contract.
4. While the international developed markets managers may invest in small cap securities, the WSIB reserves the option to limit small cap exposure.
5. The Board allows individual international managers to manage the currency exposures related to their portfolio.

Reporting

1. WSIB staff reports equity investments and allocations to the Board monthly.
2. Appropriate consultants and/or staff report investment structure and performance to the Board quarterly.
3. Staff will report changes related to the investment managers and significant deviations in performance as warranted.

RESPONSIBILITIES:

Washington State Investment Board - Responsible for approving the strategic policy.

Public Markets Committee - Responsible for reviewing and recommending strategic policy to the Board.

WSIB Staff - Responsible for implementing policy, monitoring the investment managers' asset class structure, managing the overall Public Markets equity program, rebalancing of the managers' portfolios, and reporting to the Public Markets Committee and the Board.

Original Policy Adopted 6/29/81

Revised 8/9/82

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