

**STATE OF WASHINGTON
STATE INVESTMENT BOARD**

Public Markets Committee Meeting
Minutes

December 2, 2003

The Public Markets Committee met in open public session at 1:03 P.M. at the Washington State Investment Board (WSIB) office at 2100 Evergreen Park Drive Southwest, Olympia, Washington.

Members Present:

Glenn Gorton, Chair
Jeff Hanna (via teleconference)
Charles Kaminski
Robert Nakahara
Dave Scott
Paul Trause

Members Absent:

John Magnuson
Michael Murphy
Representative Sommers

Other Board Members Present:

George Masten

Others Present:

Joe Dear, Executive Director
Gary Bruebaker, Chief Investment Officer
Nancy Calkins, Senior Investment Officer – Public Equity
David Thatcher, Contract Specialist
Kristi Bromley, Administrative Assistant – Investments

Paul Silver, Assistant Attorney General

Bo Abesamis, Callan Associates
Brenda Carmichael, Barclays Global Investors
George Madrigal, Barclays Global Investors
Alan Mason, Barclays Global Investors
Ross McLellan, State Street Corporation
Bob Werner, Frank Russell Securities
Tom Ryan, Frank Russell Securities
Pat Sullivan, Goldman, Sachs & Co.
Sandy Rattray, Goldman, Sachs & Co.

[Names of other individuals attending the meeting are not included in the minutes but are listed in the permanent record.]

The meeting convened at 1:03 P.M. with Chair Gorton identifying members present.

PUBLIC EQUITY – STATE STREET GLOBAL ADVISORS NON-U.S. EQUITY INDEX INVESTMENT MANAGEMENT CONTRACT AMENDMENT AND EXTENSION

Mr. Bruebaker reported that the contract with State Street Global Advisors (SSgA) for passive international equity management services began in February 1999 and expires on March 31, 2004. Staff requested the ability to extend the contract for a three-month period through June 30, 2004.

[Mr. Trause was in attendance at 1:08 P.M.]

Mr. Scott moved the Public Markets Committee recommend the Board authorize the executive director to amend and extend the contract with State Street Global Advisors for three months through June 30, 2004. Mr. Trause seconded and the motion carried unanimously.

REVIEW AND APPROVAL OF MINUTES – OCTOBER 7, 2003

Mr. Trause moved to adopt the minutes of October 7, 2003. Mr. Scott seconded and the motion carried unanimously.

PUBLIC MARKETS COMMITTEE MEETING SCHEDULE FOR 2004

Mr. Bruebaker reviewed the 2004 Public Markets Committee meeting schedule. He noted that the January 13 meeting would last all day to conduct international core equity manager finalist interviews.

The Committee will meet for two full days on February 3 and 4 to conduct finalist interviews for the index and enhanced index managers and for two full days on April 6 and 7 to conduct finalist interviews for international growth and value equity managers.

The Committee will also meet May 4, September 14, and November 2 at 1:00 p.m. for manager presentations and will meet December 7 if there are items to come before the Committee.

Mr. Bruebaker noted the Public Markets Committee Chair might call meetings in other months if business needs arise.

Mr. Trause moved the Public Markets Committee adopt the 2004 meeting schedule. Mr. Scott seconded and the motion carried unanimously.

TRANSITION MANAGEMENT MANAGER RFP FINALIST INTERVIEWS

Mr. Bruebaker noted the importance of having a pool of transition managers available to mask any transitions the Board undertakes so as not to signal the street thereby giving an opportunity to trade ahead of the WSIB, and it provides for competition relative to fees charged to the WSIB.

The transition managers would also be required to take on fiduciary obligations. This is extremely important since a transition manager serves as an investment manager during the transition.

Seven firms responded to the RFP. Members of the evaluation team, Gary Bruebaker and Nancy Calkins of the WSIB and Bo Abesamis of Callan Associates (Callan), independently reviewed the responses and unanimously selected the top three firms. Mr. Bruebaker stated staff and Callan would make their final recommendations after the conclusion of the interviews.

Mr. Dear stated that while he previously worked for Frank Russell for one and a half years he has no continuing economic interest with Frank Russell nor was he involved in the evaluations.

Barclays Global Investors (BGI)

Ms. Carmichael introduced herself and Messrs. Madrigal and Mason. She provided a brief organizational overview, including the transition management program's fit in the overall BGI structure, total assets under management, and the main entities of BGI's global corporate structure. She referenced the strategic partnership between WSIB and BGI and the logical extension of the partnership to include transition management.

Mr. Mason reviewed the program structure of transition management at BGI, which includes 46 dedicated professionals located around the globe, 16 in the U.S., who report to the Chief Investment Officer of indexing. He reviewed the roles of the transition strategists and managers and the skill sets of the BGI transition management team. He reviewed BGI's distinct capabilities: risk and cost management, project management, short-term asset management, and an agency only brokerage unit.

Mr. Madrigal discussed BGI's proprietary application, the multi-period optimizer (MPO), which balances risk and costs for multi-day transitions and minimizes short-term risk and transaction costs.

Mr. Mason discussed BGI's transition project management team, which draws on the full resources of the firm and involves representatives from client relations, transition strategists, and transition managers. He stated BGI performs full reconciliation of costs and risks following transitions. He discussed short-term asset management and noted the transition team was fully integrated with BGI's investment management team. He provided an example of short-term asset management services provided to clients and an illustration of BGI's transition process, including internal crossing opportunities available to BGI.

Mr. Madrigal reviewed implementation shortfall as a measurement of the success of a transition and discussed the necessity to consider real world expectations (a "rabbit" portfolio) when measuring the success of a transition.

Mr. Mason stated that BGI applies the same fiduciary duty to their transition management clients as they do their investment management clients and concluded the presentation by reviewing the benefits BGI would provide to the WSIB.

A question and answer period ensued focused on information leakage, importance of the transition-planning period, BGI's proprietary analytic tool (MPO), measurement of transition management performance, internal controls in place at BGI, and risk and cost management.

State Street Corporation (SSC)

Mr. McLellan introduced himself and provided an organizational overview. He reviewed SSC's services and qualifications, noting that SSC is a world leader of portfolio transitions with over 20 years of experience and 80 dedicated staff. He stated that SSC acts in fiduciary capacity when transitioning assets for clients and has no conflict of interest.

Mr. McLellan reviewed SSC's transition objectives and the transition management team, which consists of representatives from portfolio management, project management, operations, and trade analytics and execution. He reviewed risk and cost management and the sources of liquidity available to SSC, including SSgA's crossing pool.

Mr. McLellan discussed measurement of transition results, including investment performance during the transition period and third party analysis, and reviewed a composite of SSC's transition performance. He concluded the presentation by reviewing SSC's competitive advantages.

A question and answer period ensued focused on SSC's transition management process, the transition management team, performance, and performance-based fees.

Frank Russell Securities (FRS) and Goldman, Sachs & Co. (GS)

Messrs. Werner, Ryan, Sullivan, and Rattray introduced themselves. Mr. Sullivan discussed the partnership of FRS and GS and stated the resulting joint offering was done to best address the requirement of the WSIB's transition management RFP. He provided an organizational overview of each firm noting that transition management was an important and strategic business for each organization.

Mr. Rattray reviewed the complementary fit of the two firms, specifically FRS oversight and GS brokerage. Both firms would work together on strategy and execution.

Mr. Werner and Mr. Rattray reviewed the differentiators of the FRS/GS transition services, including years of experience, performance focus, client-centered approach, technology, liquidity, execution platform, and thought leadership.

Mr. Werner discussed performance measurement of transition management and stated that, as a fiduciary, the transition manager is accountable for performance during the transition. He noted FRS serves as a short-term asset manager and as an investment adviser for assets in transition. He reviewed the transition management strategy and provided examples of various strategies employed in short-term asset management during a transition.

Mr. Rattray reviewed risk and cost management and customized transition implementation, including multiple sources of liquidity. Mr. Rattray and Mr. Werner discussed transition

management success measurement, including implementation shortfall, the Russell T standard, and time weighted investment returns.

Mr. Werner concluded the presentation by reviewing the unique dynamics of the joint offering, including fiduciary and execution services, and noted FRS' fiduciary responsibility includes advising the WSIB on investment strategy, asset management, and execution.

A question and answer period ensued focused on fees, liquidity sources, risk controls related to the strategic partnering of FR and GS, and information leakage controls. Mr. Kaminski asked GS about the status of the investigation of Spear, Leeds & Kellogg (a GS company) by securities regulators. Mr. Rattray confirmed that Spear, Leeds & Kellogg was under investigation, as are all specialist firms on the New York Stock Exchange.

[The Committee recessed at 3:39 P.M. and reconvened at 3:51 P.M.]

Mr. Abesamis provided Callan's recommendation to select all three firms for the transition manager pool. He stated the appropriate and prudent decision is to have all three firms in the pool.

Mr. Bruebaker provided staff's recommendation to engage the three firms in the pool. He stated that each firm has the correct view of being a short-term asset manager and noted that a pool of providers serves to mask in the market place any transitions the WSIB makes and keeps fees competitive.

Discussion ensued regarding the merits of the pool concept, importance of controlling information leakage, explicit and implicit costs, process used when the WSIB requires the services of a transition manager, and importance of the transition manager serving as a fiduciary.

Mr. Trause moved the Public Markets Committee recommend the Board approve Barclays Global Investors, Frank Russell Securities and Goldman, Sachs & Co., and State Street Corporation to participate in the transition management pool. Mr. Scott seconded and the motion carried unanimously.

PUBLIC EQUITY – QUARTERLY WATCHLIST REPORT

Mr. Bruebaker reviewed the performance of each manager on Watchlist and stated that staff is not recommending any action at this time.

OTHER ITEMS

Mr. Dear updated the Committee on the actions being taken to replace Putnam as active international core equity manager.

There being no further business to come before the Public Markets Committee, the meeting adjourned at 4:24 P.M.