

**STATE OF WASHINGTON  
STATE INVESTMENT BOARD**

Public Markets Committee Meeting  
Minutes

April 6-7, 2004

The Public Markets Committee met in open public session at 9:03 A.M. at the Washington State Investment Board (WSIB) office at 2100 Evergreen Park Drive Southwest, Olympia, Washington.

Members Present: Glenn Gorton, Chair  
Jeff Hanna  
Charles Kaminski  
John Magnuson (in attendance on April 7)  
George Masten  
Robert Nakahara  
Dave Scott (in attendance on April 7)  
Representative Sommers (in attendance April 6 and morning of April 7)  
Paul Trause (in attendance on April 7)

Other Board

Members Present: Michael Murphy (Agenda Item #3 April 6)

Others Present:

Joe Dear, Executive Director  
Gary Bruebaker, Chief Investment Officer  
Nancy Calkins, Senior Investment Officer – Public Equity  
Linda Lester, Investment Officer – Public Equity  
Bill Kennett, Senior Investment Officer – Fixed Income  
Diana Will, Investment Officer – Asset Allocation  
David Thatcher, Contract Specialist  
Kathy Butler, Administrative Assistant – Contracts  
Brian Shrader, Office Assistant Senior – Public Markets  
Kristi Bromley, Administrative Assistant – Investments

Paul Silver, Assistant Attorney General  
Janet Becker-Wold, Callan Associates

Bruce Campbell, Pyrford International PLC  
Tony Cousins, Pyrford International PLC  
David Tilles, Delaware International Advisers Ltd.  
Hamish Parker, Delaware International Advisers Ltd.  
Patricia Karolyi, Delaware International Advisers Ltd.  
D. Kirk Henry, The Boston Company Asset Management, LLC  
Robert Harkins, The Boston Company Asset Management, LLC  
Ed Clarke, Causeway Capital Management

Sarah Ketterer, Causeway Capital Management  
Rob Vishny, LSV Asset Management  
Chris LaCroix, LSV Asset Management  
Mark Yockey, Artisan Partners Limited Partnership  
Lori Johnson, Artisan Partners Limited Partnership  
George Greig, William Blair & Company  
Ed Finn, William Blair & Company  
Len Racioppo, Jarislowsky Fraser Ltd.  
Blaine Lennox, Jarislowsky Fraser Ltd.  
Richard Pell, Julius Baer Investment Management  
Mel Lindsey, Julius Baer Investment Management  
Mark Beale, New Star Institutional Managers Ltd.  
William Forsyth, New Star Institutional Managers Ltd.

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

The meeting convened at 9:03 A.M. with Chair Gorton identifying members present.

**REVIEW AND APPROVAL OF MINUTES – FEBRUARY 3-4, 2004**

**Mr. Masten moved to adopt the minutes of February 3-4, 2004. Representative Sommers seconded, and the motion carried unanimously.**

**ACTIVE VALUE INTERNATIONAL EQUITY INVESTMENT MANAGER FINALIST INTERVIEWS**

Mr. Bruebaker provided an overview of the year long process of restructuring the international equity program: the Board approved the revised structure in July 2003, hired three core international equity managers in January 2004, and hired an index manager and two enhanced index managers in February 2004.

Ms. Janet Becker-Wold, Callan Associates, reviewed the process employed for the value and growth international equity searches. Of the 15 firms that were considered for the value mandate, WSIB staff and the Callan Manager Search Committee eliminated eight. The remaining seven firms were screened by the WSIB evaluation committee, which consisted of WSIB staff and Janet Becker-Wold and Michael O’Leary of Callan. The Public Markets Committee interviewed the top five firms.

***Pyrford International PLC (Pyrford)***

Messrs. Campbell and Cousins introduced themselves. Mr. Campbell provided an organizational overview, including ownership structure, investment and client service team members, organizational goals, assets under management (AUM) by product type and client domicile, and representative client list.

Mr. Campbell reviewed Pyrford's philosophy, including their focus on absolute returns, fundamental analysis, importance of country allocations, long-term view, and the importance of employing a disciplined, consistent strategy and of not diluting the firm's people skills. He reviewed a schematic of Pyrford's decision-making process, highlighted Pyrford's differentiating characteristics, and stated that both country and stock selection have added alpha over the long term. Mr. Campbell stated that Pyrford's strategy would perform best when markets are rational and perform worst when markets are irrational. He reviewed Pyrford's performance expectation and their allocation guidelines to emerging markets.

Mr. Cousins reviewed Pyrford's process for stock selection, including qualitative screens, emphasis on company visits and management interviews, focus on total returns and sustainable return on equity and their buy and sell discipline. He reviewed the key decision makers for stock selection and country allocation and reviewed Pyrford's risk controls, which are focused on absolute and relative risk.

Mr. Campbell summarized Pyrford's presentation noting their focus on a disciplined, risk adverse process and the importance they place on client service.

A question and answer period ensued focused on Pyrford's view on Japan, security capitalization weights, performance in various market cycles, and allocation to Switzerland.

*Delaware International Advisers Ltd. (Delaware)*

Mr. Tilles, Mr. Parker, and Ms. Karolyi introduced themselves. Ms. Karolyi provided an organizational overview, including history, types of clients and account assets managed, total AUM, investment professionals, organization mission, commitment to client service, incentive structure for employees, organizational structure, and representative client list.

Mr. Tilles stated that Delaware is a value-orientated defensive manager focused on rigorous dividend discount analysis. He reviewed the defensive characteristics of the portfolio for both bull and bear markets and the portfolio's below median risk. Mr. Tilles reviewed Delaware's investment philosophy and stated that benefits of Delaware's process are a focus on rate of return greater than inflation, preservation of capital in market declines, and less volatility than the index. Mr. Tilles reviewed Delaware's top-down / bottom-up focus with stock selection a major component of the value added, the long-term focus of their analysis, and low portfolio turnover.

Mr. Parker reviewed Delaware's country allocation process, including dividend discount methodology and minimum / maximum country allocation policy and discussed the risk control of the country weight ranges. He reviewed their approach to currency, buy and sell discipline, portfolio holdings, and portfolio characteristics.

A question and answer period ensued focused on country allocations, dividend focus, portfolio construction, and Delaware's consistent long-term approach.

[The Committee recessed at 10:29 A.M. and reconvened at 10:45 A.M.]

*The Boston Company Asset Management, LLC (Boston)*

Mr. Harkins introduced himself and Mr. Henry. He provided an organizational overview, including AUM by product type, composition of the international investment team, and representative client list. Mr. Harkins reviewed performance, attributing the value added to stock selection. He reviewed charts depicting risk / return, tracking error, and information ratio.

Mr. Henry reviewed Boston's investment philosophy and stock selection process, noting that they conduct bottom-up fundamental analysis of securities. He reviewed an example of the analysis performed for a security purchase and an example of a sell decision. Mr. Henry reviewed Boston's research methodology, portfolio construction, and risk controls. He reviewed the portfolio structure as of December 31, 2003, including country allocation, top-ten holdings, sector weightings, and portfolio characteristics.

Mr. Harkins reviewed the performance attribution, stating that Boston adds value through stock selection.

A question and answer period ensued focused on allocation to Australia and Japan, portfolio turnover, Boston's classification as a relative value manager versus a deep value manager, growth in AUM, and the implementation of a succession plan because of the retirement of a key investment professional.

**UPDATE ON PROXY VOTING**

Mr. Dear stated that the Board has been asked by a coalition of five public pension funds to vote against the re-election of three incumbent members of Safeway, Inc.'s board of directors at the company's 2004 annual shareholder meeting in May. Mr. Dear noted that the WSIB followed developments in Safeway's labor dispute and discussed the issues at Board meetings and in conversations with George Roberts of Kohlberg Kravis Roberts and Company (KKR). Mr. Masten and Mr. Murphy attended a meeting at KKR's Menlo Park office with other public fund representatives to express concerns about Safeway, including its labor policies, lack of independence of its Board of Directors, and the performance of its stock. The WSIB currently has approximately \$12.6 million in holdings in Safeway through the U.S. equity index fund investment managed by Barclays Global Investors (BGI). Mr. Dear explained that the decision before the Committee was whether to make a recommendation to participate in the "Vote No" campaign.

[Mr. Murphy was in attendance at 11:27 A.M.]

Mr. Dear stated that if the Committee and the Board decide to participate in the "Vote No" campaign, the WSIB would then have to decide the form of its participation. The WSIB's U.S. equity investments are currently in a commingled fund managed by BGI. The commingled fund votes all the proxies for the WSIB. BGI has an "all or none" policy related to proxy voting; however, BGI has stated that they take into consideration the opinions of its investors when determining how to vote proxies.

Mr. Murphy stated that he has encouraged Mr. Dear to pursue this issue. He stated that the WSIB has an opportunity, along with other public pension funds, to be a sizeable force for change and that he believes that it is appropriate for the WSIB to take an active role in dealing with U.S. equity proxies. He suggested that the WSIB join with the other five public pension funds and vote no on the re-election of the three incumbent Safeway directors.

An in-depth discussion ensued regarding the size of Safeway holdings in the WSIB U.S. equity portfolio, the focus of private equity general partners on the WSIB's investments when they participate on boards for companies in which they do not have fund investments, and the potential for positively impacting investment performance through a concerted focus on corporate governance. Further discussion ensued regarding some of the logistics related to the WSIB voting its U.S. equity proxies either directly or through a third-party proxy voting service and the Board revisiting its proxy voting guidelines and process.

**Mr. Masten moved that the Public Markets Committee request that staff draft appropriate letters concerning Safeway, Inc. to BGI and KKR for the Board's consideration at its next regular Board meeting. Representative Sommers seconded.**

Further discussion ensued regarding the WSIB's contract with BGI and the WSIB's proxy voting guidelines.

**The motion carried unanimously.**

**Mr. Masten moved that the Public Markets Committee recommend that the Board direct the Audit Committee to review the WSIB's proxy voting policy and recommend appropriate changes. Mr. Gorton seconded, and the motion carried unanimously.**

It was clarified that Mr. Murphy did not vote on either motion as he is not a member of the Public Markets Committee.

[The Committee recessed for lunch at 12:16 P.M. and reconvened at 12:41 P.M.]

[Mr. Murphy was no longer in attendance at 12:41 PM]

**ACTIVE VALUE INTERNATIONAL EQUITY INVESTMENT MANAGER FINALIST INTERVIEWS – CONTINUED**

*Causeway Capital Management (Causeway)*

Mr. Clarke introduced himself and Ms. Ketterer. He provided an organizational overview, including firm history, ownership structure, AUM, representative client list, investment approach focused on consistently generating alpha with less volatility than the index, commitment, focus, and repeatability of investment process.

In response to a question from Mr. Kaminski, Mr. Clarke confirmed there were no litigation issues at this time related to the team's departure from Merrill Lynch and the formation of Causeway.

Ms. Ketterer reviewed Causeway's investment philosophy, including active, bottom-up stock selection, focus on risk control, and team approach. She reviewed Causeway's investment process, including security screening, fundamental research, security target price determination, and risk-adjusted return model. She reviewed Causeway's portfolio construction and sell discipline. Causeway is a bottom-up manager that compares stocks on a risk-adjusted return level without regard to benchmark weights.

Mr. Clarke reviewed Causeway's performance, including performance in up and down markets. He noted that conservation of capital is very important to Causeway in down markets and stated that Causeway will have a difficult time in market cycles where growth is in favor and the market disregards valuations.

A question and answer period ensued regarding Causeway's view of Japanese and Australian markets, screening process, portfolio turnover, fundamental research, experience of starting own business, and ownership structure.

LSV Asset Management (LSV)

Mr. LaCroix introduced himself and Mr. Vishny. He provided an organizational overview, including AUM by product type, ownership structure, organizational structure, and a representative client list. He reviewed LSV's approach, including deep value orientation, quantitative process, stock selection focus within countries, diversification, and risk control.

Mr. Vishny reviewed the major components of LSV's model, including value (cheapness and contrarian) and momentum. He stated that LSV exploits anomalies in the market within a controlled process. He reviewed LSV's investment process, including screens, model-based ranking of stocks, risk controls, sell discipline, and portfolio turnover.

Mr. LaCroix reviewed LSV's performance annualized and in both up and down markets. He noted that all the LSV strategies utilize the same investment process.

A question and answer period ensued focused on LSV's quantitative process and sector weighting.

[The Committee recessed at 2:03 P.M. and reconvened at 2:20 P.M.]

Mr. Bruebaker provided staff's recommendation to select Delaware and Causeway as the apparently successful offerors for the international value mandate. Ms. Becker-Wold concurred. An in-depth discussion ensued regarding the best fit for the international equity portfolio as a whole, emerging markets exposure, and the duration of the contracts.

**Mr. Masten moved that the Public Markets Committee recommends to the Board Delaware International Advisers Ltd. and Causeway Capital Management as the apparently successful offerors for the active value international equity developed markets mandate, subject to continued due diligence and successful negotiation of terms and conditions. Representative Sommers seconded.**

Further discussion ensued regarding the merits and drawbacks of the firms, the best overall fit in the portfolio, and fees.

**The motion carried unanimously.**

[The Committee adjourned for the day at 2:56 P.M.]

The meeting reconvened April 7, 2004, at 9:02 A.M. with Chair Gorton identifying members present.

### **ACTIVE GROWTH INTERNATIONAL EQUITY INVESTMENT MANAGER FINALIST INTERVIEWS**

Mr. Bruebaker and Ms. Becker-Wold provided a brief overview of the international equity program restructure for the benefit of the Committee members that were not present Tuesday, April 6. Of the 20 firms that submitted an intent to bid for the growth mandate, five were eliminated for not meeting minimum qualifications for AUM and one firm (Fidelity) withdrew since the Board selected it for the international equity core mandate. WSIB staff and the Callan Manager Search Committee eliminated seven firms, and the WSIB evaluation committee, which consisted of WSIB staff and Janet Becker-Wold and Michael O'Leary of Callan, screened the remaining seven firms. The Public Markets Committee interviewed the top five firms.

[Mr. Trause was in attendance at 9:07 A.M.]

#### ***Artisan Partners Limited Partnership***

Ms. Johnson and Mr. Yockey introduced themselves. Ms. Johnson provided an organizational overview, including ownership structure, product types, AUM by strategy, account management team, and analysts. She stated that there have been no findings either as a result of the Securities and Exchange Commission inquiries into Artisan's mutual fund business or from their internal audit. She also noted that Artisan has implemented enhancements to its code of ethics.

Mr. Yockey stated that Artisan is a bottom-up stock picker, has a long-term focus, and seeks to add value by investing in companies with long-term growth rates that are selling at reasonable valuations and are focused on their core business. Artisan selects companies that are able to capitalize on themes within four criteria: growth, valuation, position in industry, and company management. He reviewed the decision-making process and portfolio construction, including risk control and emerging markets allocation.

Ms. Johnson reviewed the portfolio characteristics, including turnover, number of holdings in the portfolio, and sector and regional allocation.

A question and answer period ensued focused on portfolio turnover, performance, analyst turnover, country and sector allocations, growth of AUM, market capitalization of portfolio, and sell discipline.

William Blair & Company (William Blair)

Mr. Finn introduced himself and Mr. Greig. He provided an organizational overview, including ownership structure, firm history and culture, AUM by product and type, and representative client list. He stated that William Blair is a bottom-up, fundamental research firm that looks for high quality growth companies with strong management, conservative financials, and sustainable growth rates. He reviewed the portfolio team and stated that its structure and location allow the team to focus on consistent application of its investment process. He reviewed William Blair's decision-making process; dynamic and unbiased strategy which is not tied to regions, capitalization, or sectors; risk management; fundamental research; quantitative and thematic aspect of their approach; and team.

Mr. Greig reviewed William Blair's investment philosophy wherein superior companies make successful investments. He noted that the research process looks for companies in growth businesses with long-term viability and the opportunity for the company to distinguish itself. He reviewed the research process, stock selection process, and portfolio characteristics, including growth, returns, valuations, and capitalization.

A question and answer period ensued focused on AUM growth, sector weightings, emerging markets allocation, performance history, and risk control disciplines.

[The Committee recessed at 10:43 A.M. and reconvened at 10:56 A.M.]

Jarislowsky Fraser Ltd. (JFL)

Mr. Racioppo introduced himself and Mr. Lennox. He provided an organization overview including history, ownership structure, employees, office locations, AUM by asset class and account types, and a representative client list. Mr. Racioppo reviewed performance, risk/return comparison, and performance attribution with value added by stock selection and sector allocation. He stated that JFL does well in poor markets rather than rapidly rising markets that are theme-based. He reviewed the investment team, model portfolio structure, global research analysis, and decision-making process. He reviewed JFL's investment philosophy and provided an overview of the investment process. He reviewed security selection, emerging markets allocation, and provided examples of JFL's buy and sell disciplines.

Mr. Lennox reviewed JFL's portfolio construction, including number of positions, market capitalization, and portfolio turnover. He reviewed country and sector guidelines, country allocations, sector weightings, risk management, and portfolio holdings by sector.

A question and answer period ensued focused on analyst turnover, sector allocations, decision-making process, and risk/return comparison.

[The Committee recessed for lunch at 11:35 P.M. and reconvened at 12:00 P.M.]

[Representative Sommers was no longer in attendance at 11:59 P.M.]

Julius Baer Investment Management (Julius Baer)

Mr. Lindsey and Mr. Pell introduced themselves. Mr. Lindsey stated that Julius Baer is not under investigation related to market timing and an internal audit was conducted which indicated that no market timing was conducted by any member of their investment team. He noted that Julius Baer implemented a 2 percent redemption fee in 1999 that limits short-term trading in their funds. He provided an organizational overview, including ownership structure, portfolio management team, AUM by asset class, office locations, global platform, representative client list, and diversity of the firm.

Mr. Pell reviewed the investment philosophy that is focused on a diversified portfolio, fundamental analysis, and performance with a qualitative and quantitative focus. He reviewed the investment process, which is both top-down and bottom-up. Analysis focuses on global fundamentals, developed/emerging markets, sectors, and stock valuation. He reviewed the different strategies employed for the developed markets, emerging markets, and Japan. Mr. Pell described the investment process, including priority setting and screens and reviewed the portfolio structure, including number of portfolio holdings, capitalization, and risk control.

Mr. Lindsey reviewed performance attribution from security, sector, and country and reviewed performance.

A question and answer period ensued focused on location of the micro and macro analysts, decision-making process, active / static information review in setting priorities, and portfolio turnover.

New Star Institutional Managers Ltd. (New Star)

Messrs. Beale and Forsyth introduced themselves. Mr. Forsyth provided an organizational overview, including ownership structure, institutional focus, AUM, representative client list, portfolio management team, and model portfolio approach.

Mr. Beale reviewed the investment process, including stock, sector and industry research; regional monetary analysis; stock selection process; risk controls; sector allocation decision process; and decision-making process.

Mr. Forsyth reviewed performance and noted that New Star's strategy has done well in both bull and bear market cycles.

A question and answer period ensued focused on a possible Initial Public Offering opportunity for the firm later in 2004 and analyst research.

[The Committee recessed at 1:15 P.M. and reconvened at 1:50 P.M.]

Mr. Bruebaker provided staff's recommendation to select William Blair and Julius Baer as the apparently successful offerors for the international growth mandate. Ms. Becker-Wold concurred. An in-depth discussion ensued regarding the best fit for the international equity portfolio as a whole, emerging markets exposure, portfolio turnover, risk/return analysis, and diversification.

**Mr. Masten moved that the Public Markets Committee recommends to the Board William Blair & Company and Julius Baer Investment Management as the apparently successful offerors for the active growth international equity developed markets mandate, subject to continued due diligence and successful negotiation of terms and conditions. Mr. Scott seconded, and the motion passed with Mr. Trause voting no.**

**OTHER ITEMS**

There being no further business to come before the Public Markets Committee, the meeting adjourned at 2:17 P.M.