

**STATE OF WASHINGTON
STATE INVESTMENT BOARD**

Public Markets Committee Meeting
Minutes

December 7, 2004

The Public Markets Committee met in open public session at 1:01 P.M. at the Washington State Investment Board (WSIB) office at 2100 Evergreen Park Drive Southwest, Olympia, Washington.

Members Present: Glenn Gorton
Jeff Hanna (via teleconference)
Charles Kaminski (via teleconference)
John Magnuson
George Masten
Robert Nakahara
Dave Scott
Representative Sommers
Paul Trause

Others Present: Joe Dear, Executive Director
Gary Bruebaker, Chief Investment Officer
Theresa Whitmarsh, Deputy Director for Operations
Diana Will, Senior Investment Officer – Asset Allocation
Bill Kennett, Senior Investment Officer – Fixed Income
Nancy Calkins, Senior Investment Officer – Public Equity
Linda Lester, Investment Officer – Public Equity
Kristi Bromley, Administrative Assistant – Investments

Paul Silver, Assistant Attorney General

William Apfel, Walden Asset Management
Mark Cushing, Walden Asset Management
Brent Hartman, Fidelity Investments
Bill Samuels, Fidelity Investments
Victor Kohn, Capital International, Inc.
Paula Pretlow, Capital International, Inc.

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

The meeting convened at 1:01 P.M. with Chair Gorton identifying members present.

REVIEW AND APPROVAL OF MINUTES – NOVEMBER 2, 2004

**Mr. Masten moved to adopt the minutes of November 2, 2004.
Mr. Scott seconded, and the motion carried unanimously.**

**DEFERRED COMPENSATION PROGRAM AND JUDICIAL RETIREMENT
ACCOUNT INTERNATIONAL EQUITY OPTION REQUEST FOR PROPOSAL
CONCEPT DOCUMENT**

Mr. Bruebaker noted that, with the Committee and Board approval, the WSIB would conduct a search to replace the international option in the Deferred Compensation Program and Judicial Retirement Account due primarily to performance concerns. A replacement fund needs to be in place by April 1, 2005, so participants are not subject to Fidelity's implementation of redemption fees. WSIB staff will continue to work closely with the Department of Retirement Systems on this search. Mr. Bruebaker reviewed the minimum qualifications, which were developed to result in a sufficient pool of managers to select from and screen out firms that are not able to meet the participant's needs. He noted that Callan Associates would be assisting the WSIB with this search.

Mr. Scott moved that the Public Markets Committee recommend that the Board authorize the issuance of a Request for Proposal for an international equity option for the Deferred Compensation Program and Judicial Retirement Account, and that the Request for Proposal reflect scope of services and terms consistent with the attached Concept Document. Mr. Masten seconded, and the motion carried unanimously.

DEFINED CONTRIBUTION INVESTMENT MANAGER PORTFOLIO REVIEWS

Ms. Calkins noted that Walden Asset Management and Fidelity Investments, both external defined contribution managers, would present portfolio reviews to the Committee.
Walden Asset Management (Walden)

Mr. Cushing introduced himself and Mr. Apfel and provided an organizational overview, including assets under management, number of investment staff, client mix, asset distribution, and ownership structure. In August 2004, the management led buyout from Citizens Financial Group was completed, resulting in a privately held independent investment firm with no change to Walden's investment process and philosophy and no investment professional turnover.

[Mr. Trause was in attendance at 1:10 P.M.]

Mr. Apfel reviewed Walden's tactical asset allocation methodology and approach for equity investing, including the quantitative analysis performed as part of the investment management process, asset and sector allocation as of October 31, 2004, and characteristics of the equity portfolio.

[Mr. Nakahara was in attendance at 1:26 P.M.]

Mr. Apfel reviewed Walden's fixed income investment approach, including maturity management, sector allocation, and security selection. He reviewed duration and sector allocation versus the benchmark, noting the overweight to Treasury Inflation Protection Securities (TIPS) contributed to performance.

Mr. Cushing reviewed investment performance and noted that the investment process is the same for the social fund as it is for the conventional portfolio. Walden seeks to apply each component of the investment management process, asset allocation, active equity management, and active fixed income management, to add return and lower risk. The performance attribution since inception shows added value in all three of those areas. He also provided a market outlook; reviewed the categories of social screenings applied in the portfolio: customers, employees, communities, and natural environment; and reviewed the 2004 shareholder advocacy highlights.

Discussion ensued regarding portfolio risks, sector weightings, social screens, and Walden's proprietary social research.

Fidelity Investments (Fidelity)

Mr. Hartman introduced himself and Mr. Samuels. Mr. Samuels reviewed an economic and market overview, noting that small capitalization value stocks outperformed significantly over the past five-year period. He reviewed performance, peer ranking, top ten holdings, expense ratio, and portfolio characteristics for each fund (Equity-Income, Growth Company, Independence, and Overseas), noting that sector allocation in the portfolios is largely a result of Fidelity's bottom-up stock selection process.

[The Committee recessed at 2:18 P.M. and reconvened at 2:29 P.M.]

**CAPITAL INTERNATIONAL, INC. EMERGING MARKETS INVESTMENT
MANAGER PORTFOLIO REVIEW**

Ms. Calkins noted that Capital International would present their portfolio review to the Committee; the other WSIB emerging markets managers presented to the Committee in November.

Ms. Pretlow introduced herself and Mr. Kohn and provided an organizational overview, including assets under management, ownership structure, investment professionals, investment philosophy, style, and approach, and investment performance.

Mr. Kohn reviewed the top 20 holdings, portfolio diversification by sector and country, and performance attribution by country, sector, and security, and portfolio characteristics. He provided an overview of Capital's outlook for emerging markets, noting the expectation for decreased volatility in the emerging markets.

Discussion ensued regarding portfolio risks, stock selection, country allocation, and country selection, and change in assets under management in Capital's commingled Emerging Markets Growth Fund since inception. Ms. Pretlow said she would provide staff detailed information regarding the changes in asset under management.

[Mr. Magnuson was no longer in attendance at 3:18 P.M.]

EMERGING MARKETS MANAGER DISCUSSION

Mr. Bruebaker reminded the Committee of the discussion of F&C's projections for oil prices at the November Public Markets Committee. Oil prices were one of several potential risks in F&C's portfolio, none of which individually would significantly affect investment performance. He stated that the F&C portfolio is well diversified and positioned to provide good performance going forward. Mr. Bruebaker noted that staff believes that the WSIB has a well-balanced and diversified emerging markets portfolio.

OTHER ITEMS

There being no further business to come before the Public Markets Committee, the meeting adjourned at 3:22 PM.