

**STATE OF WASHINGTON  
STATE INVESTMENT BOARD**

Public Markets Committee Meeting  
Minutes

June 7, 2005

The Public Markets Committee met in open public session at 1:02 P.M. at the Washington State Investment Board (WSIB) office at 2100 Evergreen Park Drive Southwest, Olympia, Washington.

Members Present: George Masten, Acting Chair  
Glenn Gorton (via teleconference)  
Jeff Hanna  
Dave Scott  
Representative Sommers  
Gary Weeks

Members Absent: Charles Kaminski  
John Magnuson  
Robert Nakahara

Others Present: Joe Dear, Executive Director  
Gary Bruebaker, Chief Investment Officer  
Theresa Whitmarsh, Deputy Director for Operations  
Nancy Calkins, Senior Investment Officer – Public Equity  
Linda Lester, Investment Officer – Public Equity  
Liz Mendizabal, Public Affairs Director  
Diana Will, Senior Investment Officer – Asset Allocation  
Kristi Bromley, Administrative Assistant – Investments  
Paul Silver, Assistant Attorney General

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

The meeting convened at 1:02 P.M. with Acting Chair Masten identifying members present.

**REVIEW AND APPROVAL OF MINUTES – MAY 3, 2005**

**Mr. Scott moved to adopt the minutes of May 3, 2005. Representative Sommers seconded, and the motion carried unanimously.**

**ENHANCEMENTS TO U.S. EQUITY PORTFOLIO – REQUEST FOR PROPOSAL CONCEPT DOCUMENTS**

[Mr. Weeks was in attendance at 1:04 P.M.]

Mr. Bruebaker introduced himself and noted the recent educational sessions the Committee and Board have participated in, which all presented ideas on ways to incrementally improve the performance of the U.S. equity portion of the Commingled Trust Fund in a risk-controlled manner. The request for issuance of the request for proposals (RFPs) would allow staff to perform searches related to enhanced index management and fundamental metrics index management. If approved by the Committee and Board, the RFPs would be issued following the June Board meeting and staff would work with Callan Associates to reach out to managers that may not otherwise respond to an RFP process. The Committee would interview potential managers at the September meeting. Any funds dedicated to U.S. equity enhanced or fundamental metrics indexing would come from the U.S. equity optimized index portfolio.

**U.S. EQUITY ENHANCED INDEX MANAGEMENT**

Mr. Bruebaker stated that enhanced indexing is a risk-controlled form of active management that, while closely managed to an index, deviates somewhat from the benchmark index in an attempt to produce higher returns than are generated by passive management. Enhanced indexing has a relatively low tracking error to the benchmark but has more risk than passive indexing.

On Mr. Kaminski's behalf, Mr. Hanna noted that Mr. Kaminski was in favor of this search.

**Mr. Scott moved that the Public Markets Committee recommend that the Board authorize the issuance of a Request for Proposal for U.S. Equity Enhanced Index Management consistent with the scope of services and terms of the concept document. Mr. Weeks seconded, and the motion carried unanimously.**

**FUNDAMENTAL METRICS INDEX MANAGEMENT**

Mr. Bruebaker stated that fundamental metrics indexing utilizes a specific index developed based upon weights derived from company fundamentals (e.g., total income, book equity value, total sales, gross dividends), instead of market capitalization. He noted that staff would like to conduct a search for this product for possible use in both the U.S. and international equity portfolios.

Discussion ensued regarding the strategy. Mr. Bruebaker read the following statement into the record on behalf of Mr. Kaminski: "I am strongly in favor of this effort because I believe that it will significantly benefit SIB by its being an early actor on this aspect of equity management. This RFP should be facilitated and an outsized investment should be considered."

**Mr. Scott moved that the Public Markets Committee recommend that the Board authorize the issuance of a Request for Proposal for Fundamental Metrics Index Management consistent with the scope of services and terms of the concept document. Representative Sommers seconded, and the motion carried unanimously.**

**REQUEST FOR PROPOSAL CONCEPT DOCUMENT – DEFERRED  
COMPENSATION PROGRAM AND JUDICIAL RETIREMENT ACCOUNT U.S.  
EQUITY OPTIONS**

Staff recommends issuance of an RFP to search the market place to determine the best managers for the U.S. active value and U.S. active core options in the Deferred Compensation Program (DCP) and Judicial Retirement Account (JRA). The current options, Fidelity Equity-Income Fund and Fidelity Independence Fund, are on Watchlist due to underperformance. As of April 30, 2005, the Fidelity Equity-Income Fund underperformed the Russell 3000 Value Index over the one-, three-, five-, and ten-year periods by 712, 281, 185, and 192 basis points, respectively. Also as of April 30, 2005, the Fidelity Independence Fund underperformed the Russell 3000 Index over the one-, three-, five-, and ten-year periods by 318, 402, 281, and 137 basis points, respectively. Mr. Bruebaker stated that Fidelity is an important partner of the WSIB's and will be encouraged to respond to the RFPs.

Mr. Bruebaker noted that staff is working very closely with the Department of Retirement Systems regarding these investment options.

**Mr. Weeks moved that the Public Markets Committee recommend that the Board authorize the issuance of a Request for Proposal for U.S. Equity options for the Deferred Compensation Program and Judicial Retirement Account consistent with the scope of services and terms of the concept document. Mr. Scott seconded, and the motion carried unanimously.**

Discussion ensued regarding behavioral investing and the importance of communications with DCP members regarding investment options.

**OTHER ITEMS**

There being no further business to come before the Public Markets Committee, the meeting adjourned at 1:34 P.M.