

**WASHINGTON STATE INVESTMENT BOARD  
Public Markets Committee Meeting Minutes  
January 10, 2007**

The Public Markets Committee met in open public session at 1:00 p.m. at the Washington State Investment Board (WSIB) office at 2100 Evergreen Park Drive Southwest, Olympia, Washington.

Members Present: Dave Scott, Chair  
Charlie Kaminski (via teleconference)  
Robert Nakahara (via teleconference)  
David Nierenberg (via teleconference)  
Mason Petit (via teleconference)  
Representative Helen Sommers  
Judy Schurke (via teleconference)

Members Absent: Senator Brown  
John Magnuson

Other Board Members Present: George Masten

Others Present: Joe Dear, Executive Director  
Gary Bruebaker, Chief Investment Officer  
Liz Mendizabal, Public Affairs Director  
Nancy Calkins, Senior Investment Officer – Public Equity  
David Thatcher, Investment Officer – Public Equity  
Steve Lerch, Research Director  
Diana Will, Senior Investment Officer – Asset Allocation  
Bill Kennett, Senior Investment Officer – Fixed Income  
Kristi Bromley, Administrative Assistant – Investments  
Paul Silver, Assistant Attorney General  
Kyle Crews, Assistant Attorney General

Arjun Divecha, Grantham, Mayo, Van Otterloo  
Wendy Malaspina, Grantham, Mayo, Van Otterloo

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

The meeting convened at 1:00 p.m. with Chair Scott identifying members present.

**REVIEW AND APPROVAL OF MINUTES – APRIL 4, 2006**

**Representative Sommers moved to adopt the April 4, 2006, Public Markets Committee minutes; Mr. Petit seconded the motion.**

Mr. Nierenberg requested that staff distribute Committee minutes in advance of the next scheduled Committee meeting, especially when the Committee does not meet for several months. It is difficult to review minutes from a meeting that occurred quite a while ago. Mr. Kaminski noted that this is something that the Audit Committee has also discussed as they typically meet quarterly. Mr. Dear noted that it would not be a problem to get the minutes to the members earlier as it is staff's current practice to have the minutes complete within one week of the meeting. Chair Scott stated that staff would attempt to get the minutes out to members sooner.

**The motion carried unanimously.**

**PUBLIC EQUITY INVESTMENT RECOMMENDATION – GMO EMERGING ILLIQUID FUND, L.P.**

Ms. Calkins introduced herself and stated that staff recommends an investment of up to \$50 million in the GMO Emerging Illiquid Fund, L.P., a \$300 million (target) equity portfolio that will invest in illiquid listed and unlisted companies within emerging markets with an emphasis on the combination of country and sector. The WSIB first invested with Grantham, Mayo, Van Otterloo (GMO) in December 1996. This investment, if approved, would expand an existing relationship with a partner that has performed well on behalf of the WSIB. Ms. Calkins stated that this opportunity is new and unique, consisting of both public and private equity characteristics and features. This is a good strategy for patient, long-term investors such as the WSIB.

Ms. Malaspina introduced herself and Mr. Divecha and thanked the WSIB for the long-standing relationship. She stated that they are currently talking to a select group of clients, all of which are institutional investors, regarding the GMO Emerging Illiquid Strategy.

Mr. Divecha reviewed the investment methodology used in the portfolio currently managed by GMO for the WSIB, which is approximately 90 percent quantitative and 10 percent judgmental/fundamental. The computer models cover large- to medium-capitalized stocks in the index and they also do fundamental analysis of smaller, illiquid opportunities that they expect to grow in the next few years. Currently, a small part of the Emerging Markets Strategy portfolio is invested in these opportunities. The GMO Emerging Illiquid Strategy was formed to enable GMO to invest more in these existing, well-run companies that are poised for growth. The formation of this new strategy was designed to enable them to take advantage of the longer-term investment horizon necessary for the smaller, illiquid companies as well as the legal issues that prohibit their current Emerging Markets portfolio, which is a U.S. mutual fund, from investing in private transactions.

Mr. Nierenberg stated his concern over GMO not taking board seats on companies they take an ownership stake in, as well as the apparent lack of proactively addressing exit opportunities during the due diligence process.

Mr. Divecha stated that the majority of the investments will be in listed companies and the investments in unlisted companies would be expected to have liquidity as the companies grow and their market cap increases, which is GMO's investment thesis for these companies. He noted that GMO does not believe they have expertise in running companies and the investments they are making would likely not be open to investors that were looking to exert control. He also noted that having a board seat would expose GMO and their investors to liability and other legal risks, such as the Foreign Corrupt Practices Act, which GMO felt were risks not worth taking.

[Ms. Schurke was in attendance at 1:27 p.m.]

Mr. Nierenberg stated that he was now more comfortable with the liquidity path and exit strategies, but still troubled by GMO's practice of not holding board seats, as well as the lack of private equity investing and governing experience among GMO's team.

Mr. Divecha noted that GMO has added a member to their team with specific expertise in structuring private deals. He continued to review the summary of the GMO Emerging Illiquid Strategy, including expected target investment size, rate of return, and fees. He reviewed current country and sector opportunities of interest for the Fund.

Discussion took place regarding GMO's team and on-the-ground relationships with local agents and companies; amount of GMO partner investment in the Fund; expected growth opportunities for emerging markets companies; and risks of investing in emerging markets.

Mr. Nakahara and Mr. Petit expressed their desire that the WSIB be considered for the maximum possible allocation amount. Mr. Divecha stated that the WSIB would get the maximum allocation available to any one investor.

**Mr. Scott moved that the Public Markets Committee recommend that the Board invest up to \$50 million, plus fees and expenses, in GMO Emerging Illiquid Fund, L.P., subject to continued due diligence and final negotiation of terms and conditions. Representative Sommers seconded the motion.**

Discussion ensued regarding strategy, opportunity, fees, team, and allocation. Mr. Nierenberg reiterated his concerns with the carried interest, number of people on the ground, and practice of not taking board seats. Mr. Kaminski stated that GMO is a top-tier group that is highly motivated and smart; he urged the Committee to go forward with staff's recommendation. Mr. Nakahara restated his desire to get as large of allocation as possible.

**The motion carried unanimously.**

**OTHER ITEMS**

There was no further business to come before the Public Markets Committee and the meeting adjourned at 2:14 p.m.