

**WASHINGTON STATE INVESTMENT BOARD
Public Markets Committee Meeting Minutes
September 11, 2007**

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: Dave Scott, Chair
Senator Lisa Brown
Charlie Kaminski (via conference call)
John Magnuson
Robert Nakahara
David Nierenberg
Mason Petit (via conference call)
Judy Schurke
Representative Helen Sommers

Other Board Members Present: Glenn Gorton
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
Bill Kennett, Senior Investment Officer – Fixed Income
Diana Will, Senior Investment Officer – Asset Allocation
David Thatcher, Investment Officer – Public Equity
John Lynch, Contract Manager
Kristi Bromley, Administrative Assistant – Investments
Brian Bucholz, Assistant Attorney General

Leona Bridges, Barclays Global Investors
Jim Keagy, Barclays Global Investors
Dave Lonergan, Barclays Global Investors
Amy Schioldager, Barclays Global Investors

[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 Scott identifying members present. The Committee observed a moment of silence to remember those who lost their lives in the September 11, 2001 tragedy.

REVIEW AND APPROVAL OF MINUTES – MAY 2, 2007

Representative Sommers moved to adopt the May 2, 2007, Public Markets Committee minutes. Senator Brown seconded, and the motion carried unanimously.

INDEX-RELATED PRODUCTS MANAGER PRESENTATION

Ms. Calkins introduced herself and reviewed the process undertaken for the index-related product search. Callan Associates, Inc. and the WSIB evaluation team collaborated on the manager search. A quantitative screen identified candidates that met the characteristics and qualifications required by the WSIB for this service provider. Callan Associates' Search Committee pared the list of candidates down to two based on organizational structure, depth of resources, breadth of product line-up, personnel and product stability, and philosophical compatibility with the given mandate. The WSIB Index Evaluation Team reviewed the final two candidates, Barclays Global Investors (BGI) and State Street Global Advisors (SSgA). Ms. Calkins stated that the team recommendation was the selection of Barclays Global Investors for the mandate. Ms. Calkins noted the importance of this strategic relationship.

Mr. Bruebaker introduced himself and stated his appreciation of the Board's strategic relationships with both BGI and SSgA, the Board's international index manager. These relationships allow the WSIB to draw on both firms' expertise. He stated that BGI is a key relationship that provides the Board with many value-added strategic services. The Evaluation Team selected BGI for reasons that included the following: they are doing a great job managing our funds, they were the least expensive, they have an established process for the WSIB voting our own proxies, and there would be no transition costs involved.

Mr. Keagy introduced himself, Ms. Schioldager, Ms. Bridges, and Mr. Lonergan. He reviewed Barclays' assets under management, ownership structure, employees, investment products, and the benefits of economies of scale, which helps keep management fees and transactions down resulting in better performance. He also reviewed BGI's client base and the breadth of the BGI teams that support the WSIB relationship. He reviewed the services provided to WSIB, including special projects and educational sessions, and results the WSIB has received from the strategic partnership, including outperformance, savings in transaction costs and management fees, and income from securities lending where the WSIB enjoys a preferential split.

Ms. Schioldager reviewed index portfolio management and performance and what differentiates BGI, including quality portfolio management, dedicated research resources, index innovation, and industry leadership through benchmark advocacy. She reviewed BGI's single investment philosophy, Total Performance Management, which delivers superior risk-adjusted returns, in addition to BGI's "active" approach to index management. Ms. Schioldager reviewed annualized performance of BGI's Wilshire 5000 Index Fund over the 1-, 3-, and 5-year periods and since inception. She also reviewed the benefits of commingled strategies: unit level crossings, lower tracking error, shared custodial and administrative costs, deep and stable pool of lendable securities, and lower management fees that result in lower costs and higher long run returns.

Ms. Bridges reviewed how BGI adds performance through securities lending and the benefits the WSIB receives from BGI's advantages. These advantages include investment management discipline, research-based quantitative approach, comprehensive risk management, client service, and experienced investment professionals worldwide.

Mr. Lonergan reviewed management of securities lending collateral, including cash management experience and comprehensive oversight, including proprietary systems. He reviewed BGI's risk budgeting framework and the protection of WSIB's cash collateral. Mr. Lonergan also discussed recent market events.

Mr. Keagy concluded the presentation and discussion ensued regarding the importance of the WSIB relationship to BGI and securities lending.

Mr. Bruebaker reiterated that BGI does an outstanding job for the Board and encouraged the Committee to recommend the Board renew this relationship.

Further discussion ensued regarding transition costs involved in changing managers and the importance of investment decisions being based on improved returns and efficiencies.

Representative Sommers moved that the Public Markets Committee recommend that the Board approve the selection of Barclays Global Investors as the index-related products investment manager for the WSIB, subject to final negotiation of terms, conditions, and fees. Senator Brown seconded, and the motion carried unanimously.

MSCI BENCHMARK CHANGE AND RELATED POLICY REVISIONS

Ms. Calkins noted that the WSIB uses index funds in the investment management of many portfolios, including Labor and Industries (L&I) and the Guaranteed Education Tuition (GET) program. She stated that Morgan Stanley Capital International (MSCI) is making changes to their index that would obligate the WSIB to choose a different index for international equities. Given the opportunity to change indices, staff recommends that instead of moving from the current developed markets index to one of the new choices, we actually move to a global index that will allow for broader exposure to emerging markets and small capitalization securities. Staff stated that the stakeholders, L&I and GET, are supportive of this move.

Chair Scott moved that the Public Markets Committee recommend that the Board approve the proposed revisions to the Labor and Industries' Insurance Funds Policy 2.20.100 and the Advanced College Tuition Payment Program Policy 2.35.100. Senator Brown seconded, and the motion carried unanimously.

GLOBAL EQUITY BENCHMARK REVIEW

Ms. Will introduced herself and referenced her global equity presentation at the July Board retreat. Staff identified the following next steps at the Board retreat: recommendation of a global benchmark; recommendation of policy changes to include rebalancing guidelines; and discussion of an implementation timeline. The primary purpose of a global benchmark is to allow the WSIB to weight the U.S. and international equities inline with the changing global economy. This move will not change the way the WSIB invests U.S. or international equities and will not change the benchmark for the current equity managers. Future performance reports will continue to show returns at the U.S. and international levels and will also show returns at a composite global level.

Ms. Will stated that she reviewed five benchmarks: MSCI Global Investable Market Indices; FTSE Global All Cap Equity Index, S&P/Citigroup Global Equity Indices, Russell Global Equity Index, and Dow Jones Wilshire Global Total Market Index. The main areas reviewed included breadth, transparency and methodology, adaptability, and data availability. Two indexes, Russell Global Equity Index and Dow Jones Wilshire Global Total Market Index, had the greatest breadth and transparency. She reviewed an example of the methodology differences of those two indices. Ms. Will also provided a comparison of the two indices that included the number of countries in each index and the consideration they give to the placement of countries in developed or emerging markets.

Ms. Will stated that staff recommended the Dow Jones Wilshire Global Total Market Index and discussion ensued regarding the recommendation.

Representative Sommers moved that the Public Markets Committee recommend that the Board adopt the Dow Jones Wilshire Global Total Market Index as the global equity benchmark for the global equity component of the commingled trust fund. Ms Schurke seconded, and the motion carried unanimously.

PUBLIC MARKETS EQUITY – RETIREMENT FUNDS POLICY 2.10.100 REVISION

Ms. Calkins stated that this policy change would be necessary and go into effect if the Board approved the Committee's recommendation regarding the global equity benchmark. She reviewed the two components of the policy changes. One being the global equity benchmark that the committee just discussed and the target weights and ranges for U.S. and international markets within the global benchmark.

The second related to the allocation to emerging markets. In 2003, the Board adopted a fixed allocation for dedicated emerging markets managers and allowed the developed markets managers to invest opportunistically in emerging markets. This was done to provide for the ability to under or overweight emerging markets. At that time, emerging markets was just 8 percent of the benchmark and our range of 8 to 10 percent in emerging markets was fine. Currently, emerging markets are more than 17 percent of the index. Instead of a fixed percentage, staff recommends establishing the allocation based on the weight of emerging markets in the index so that it floats with the index.

Chair Scott moved that the Public Markets Committee recommend that the Board approve the proposed revisions to the Public Markets Equity – Retirement Funds Policy 2.10.100. Senator Brown seconded, and the motion carried unanimously.

Chair Scott announced that the Committee would go into executive session under the provisions of RCW 42.30.110(1)(k) to discuss financial and commercial information relating to an investment since public knowledge regarding the discussion would result in loss to the funds managed by the Board or would result in private loss to the providers of the information. The executive session was expected to last until about 2:23 p.m. at which time the Committee would reconvene in open session.

[The executive session convened at 2:08 p.m.]

EQUITY IMPLEMENTATION

[The executive session recessed at 2:23 p.m. and the Committee reconvened in open public session.]

2008 MEETING SCHEDULE

Chair Scott moved that the Public Markets Committee adopt its 2008 meeting dates. Senator Brown seconded, and the motion passed unanimously.

OTHER ITEMS

There was no further business to come before the Public Markets Committee and the meeting adjourned at 2:24 p.m.