

**WASHINGTON STATE INVESTMENT BOARD
Public Markets Committee Meeting Minutes
May 6, 2008**

The Public Markets Committee met in open public session at 9:01 a.m. at the Washington State Investment Board (WSIB) office at 2100 Evergreen Park Drive Southwest, Olympia, Washington.

Members Present: George Masten, Chair
Charlie Kaminski (via conference call)
John Magnuson
Robert Nakahara (via conference call)
David Nierenberg (via conference call)
Mason Petit
Mike Ragan (via conference call)
Representative Helen Sommers

Members Absent: Judy Schurke

Others Present: Joe Dear, Executive Director
Gary Bruebaker, Chief Investment Officer
Philip Paroian, 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
Maria Tosteson-Rosen, Investment Officer – Fixed Income
Kristi Bromley, Administrative Assistant – Investments
Brian Buchholz, Assistant Attorney General

Rich Hoerner, BlackRock
Dan McLaughlin, BlackRock
Tom Rudwall, BlackRock
Eric Clothier, Barclays Global Investors
David Lonergan, 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 9:01 a.m. with Chair Masten identifying members present.

REVIEW AND APPROVAL OF MINUTES – APRIL 1, 2008

Mr. Petit moved to adopt the April 1, 2008, Public Markets Committee minutes. Chair Masten seconded, and the motion carried unanimously.

U.S. MONEY MARKET AND/OR SHORT-TERM INVESTMENT FUNDS SEARCH RESULTS

Mr. Thatcher introduced himself and described the U.S. money market and/or short-term investment fund search process. The contracts of the incumbent managers, Barclays Global Investors (BGI) for the enhanced cash fund and BlackRock for the general and government money market funds, expire June 30, 2008. The search was a joint effort between WSIB staff and Callan Associates, one of our consultants. Callan screened the manager universe both quantitatively and qualitatively for firms that would best meet the requirements of the WSIB. As a result, Callan forwarded to the WSIB evaluation team 8 firms with 17 products for further assessment. The evaluation team consisted of Diana Will, Asset Allocation Senior Investment Officer; Maria Tosteson Rosen, Fixed Income Assistant Senior Investment Officer; and David Thatcher, Public Equity Investment Officer. The team reviewed each product based on organizational structure, performance, cash flow, fees, and value added services.

[Mr. Ragan was in attendance at 9:06 a.m.]

Upon completion of the evaluation, staff determined the incumbents were competitive with any other managers and there was no compelling reason to transition to new products. The difference, if any, in historical investment performance between the other vendors and the incumbent managers was generally a basis point or two. The possibility of gaining a small incremental increase in return would, most likely, not offset costs associated with transitioning to new managers. The WSIB staff recommended that the Board retain the incumbent managers, BGI and BlackRock, for another contract term.

Mr. Thatcher provided a description of the cash management program and its purposes. Money market/short-term investment options provide liquidity as well as incremental returns to portfolios. They are included in the asset allocation of the Horizon Funds to reduce risk and are used in Labor and Industries' Workers' Compensation Trusts as a tool to help manage the duration of the portfolios. Managing the portfolio durations is a useful tool in maintaining a low premium volatility, which is an important strategy for the L&I portfolios.

Mr. Bruebaker explained the difference between short-term investment funds and the cash overlay strategy. Further discussion ensued regarding the cash management program, including uses, fees, and the importance of program integrity to not "break the buck." Money market funds experienced pressure earlier this year and some required capital infusions by their parent organizations. This was not the case with either BGI or BlackRock.

Mr. Nierenberg stated his confidence with both BGI and BlackRock as well as the level of the fees. He stated the importance of having high quality managers to protect the WSIB's assets and manage the program appropriately.

BlackRock

Mr. McLaughlin introduced himself, Mr. Hoerner, and Mr. Rudwall. He provided an overview of the firm including assets under management, global focus, number of employees, and stable organization management. He reviewed BlackRock's focus on risk management and technology as well as the firm's corporate governance structure.

Mr. Rudwall reviewed BlackRock's cash management capabilities and philosophy of safety, quality, and liquidity. Mr. Hoerner reviewed the portfolio construction process and the team effort involved. He reviewed BlackRock's disciplined investment process, including market analysis, investment strategy, committee guidance, investment parameters, portfolio management, proprietary quantitative analytics, and disciplined risk management. Mr. Hoerner stated that while the past 9 months were extremely challenging, BlackRock maintained focus on their investment process and, as a result, came through the challenges well.

Barclays Global Investors

Mr. Clothier introduced himself and Mr. Lonergan. He reviewed organizational and ownership structure as well as BGI's client and AUM growth.

Mr. Lonergan provided a market overview, focusing on liquidity, credit, and interest rates. He also reviewed BGI's market outlook and positioning.

[The Committee recessed at 10:21 a.m. and reconvened at 10:28 a.m.]

Mr. Petit moved that the Public Markets Committee recommend the Board approve the selection of Barclays Global Investors as the investment manager for the money market or enhanced yield option and BlackRock as the investment manager for the general money market and government money market funds, subject to final negotiation of terms, conditions, and fees. Representative Sommers seconded, and the motion carried unanimously.

WALDEN ASSET MANAGEMENT CONTRACT EXTENSION

Mr. Paroian introduced himself and noted that 5 years ago the WSIB conducted an investment manager search for the socially responsible investment option offered to Plan 3 and Deferred Compensation participants. At that time, the Board selected Walden Asset Management as the manager for these funds. Walden's contract is set to expire June 30, 2008. In March, Mr. Paroian and Mr. Thatcher conducted an on-site due diligence review of the manager. The review confirmed that the firm adhered to its process. During 2007, long-term, careful, fundamental research did well and Walden was able to avoid the pitfalls of other managers and outperformed its custom benchmark by 424 basis points (bps). In 2007, Walden performed well in all three areas of its balanced strategy: tactical asset allocation, equities, and bonds.

Mr. Paroian reviewed Walden's assets under management, number of employees, investment process, and research capabilities. In addition to good investment performance, Walden is also an important partner to the WSIB serving as a resource and sounding board to staff on social issues such as divestment and corporate governance.

Discussion ensued regarding Walden's performance attribution and investment discipline as well as management and administrative fees.

Mr. Petit moved that the Public Markets Committee recommend the Board authorize the executive director to extend the contract with Walden Asset Management, Contract Number 03-001, for a 5-year term through June 30, 2013, subject to successful negotiations and any further due diligence. Representative Sommers seconded, and the motion carried unanimously.

OTHER ITEMS

There was no further business to come before the Public Markets Committee and the meeting adjourned at 10:49 a.m.