

**WASHINGTON STATE INVESTMENT BOARD
Public Markets Committee Meeting Minutes
December 2, 2008**

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: Mike Ragan, Chair
Charlie Kaminski (via teleconference)
David Nierenberg (via teleconference)
George Masten
Mason Petit
Judy Schurke
Representative Helen Sommers

Members Absent: John Magnuson
Robert Nakahara

Others Present: Joe Dear, Executive Director
Gary Bruebaker, Chief Investment Officer
Philip Paroian, Senior Investment Officer – Public Equity
David Thatcher, Investment Officer – Public Equity
John Lynch, Contracts Manager
Brian Roberts, Investment Officer – Private Equity
Kristi Bromley, Administrative Assistant – Investments
Brian Buchholz, Assistant Attorney General

Ravi Goutam, Barclays Global Investors
Debbie Jellian, BlackRock
Paul Francis, BlackRock
Dan McLaughlin, BlackRock
Steve Kirschner, Russell Implementation Services
Scott Spinharney, Russell Implementation Services

[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 Ragan identifying members present.

REVIEW AND APPROVAL OF MINUTES – SEPTEMBER 9, 2008

Mr. Masten moved to adopt the September 9, 2008, Public Markets Committee minutes. Mr. Petit seconded, and the motion carried unanimously.

TRANSITION MANAGEMENT MANAGER SEARCH FINALIST INTERVIEWS

Mr. Thatcher introduced himself and reviewed the transition management pool. Over 5 years ago, the WSIB, in consultation with Callan Associates, set a new course for public plans by establishing a pool of transition managers to call upon when needed. Since then, the transition manager pool concept has taken hold throughout the U.S. in public and other plans. The current transition manager contracts are expiring. The WSIB has conducted a search to rebid those contracts, to expand the pool, and to stay in the forefront as the industry changes. For instance, the WSIB will require transition managers to work together to achieve best execution during transitions in the future.

Mr. Thatcher explained that transition management is the restructuring or rebalancing of a portfolio from single or multiple investment managers and asset classes in the most cost effective and efficient method. The transition manager is essentially a project, asset, cost, and risk manager and has many tools at its disposal to accomplish this activity. During their presentations, the managers will share insights on how this is accomplished. The goal of a transition is to preserve the value of the legacy portfolio (a current manager/asset class) and give the target portfolio (new manager/asset class) the best chance to succeed. Transition management should always be viewed as short-term asset management. Though transition management can be very complex, the goal is to keep it as simple as possible.

Representative Sommers asked for further elaboration on the addition of BlackRock to the transition manager pool. (The other two firms are incumbents). Mr. Thatcher and Mr. Paroian, Senior Investment Officer – Public Equities, explained that BlackRock brings skills and experience, particularly in the potential transition of fixed income assets, beyond the current members of the pool. Transition managers work under an optional use contract. The WSIB may or may not ever need the use of an experienced fixed income transition team, but the goal of the search was to fully populate the pool of managers with a complete skill set that can respond to any future needs of the WSIB that may arise.

Discussion ensued regarding the skill sets of the managers recommended for the pool and the use of the transition pool over the past 5 years. Mr. Nierenberg noted the importance of firms working cooperatively with the WSIB.

Barclays Global Investors

Mr. Goutam, Barclays Global Investors, introduced himself and provided an organizational overview of Barclays Global Investors (BGI), including ownership structure and assets under management. He reviewed the advantages provided by BGI: trusted and transparent relationship; lower costs and greater savings; risk mitigating investment strategies; and assumption of clients' operational risk. BGI acts in the WSIB's best interest during transitions as an ERISA fiduciary and their size and scale discreetly masks transition flows providing a high level of confidentiality.

Mr. Goutam noted the importance of revenue transparency when evaluating a transition manager and reviewed BGI's transition implementation track record for 2007 and the first half of 2008. He stated that liquidity is a key attribute to minimize transition costs. As one of the largest asset managers in the world, BGI is able to access liquidity very efficiently and effectively. He discussed how BGI manages the tradeoff between cost and risk, noting that those elements go hand-in-hand during transitions. Implementing a transition too fast impacts the market more while too slow affects opportunity risk. The optimal transition strategy minimizes total cost.

Mr. Goutam reviewed the pre-transition strategy and analyses and the post-transition steps undertaken to provide complete transparent project management from start to finish and discussed the operational considerations for a sample transition timeline.

BlackRock

Mr. McLaughlin, Mr. Francis, and Ms. Jellian, BlackRock, introduced themselves.

Mr. McLaughlin provided an organizational overview, including assets under management, diversity of business, stability in leadership, and strong culture of fiduciary and risk management. Mr. Francis reviewed the BlackRock Solutions group, which includes transition management, and the fit within the larger BlackRock organization as well as resources available to the team. They leverage the technology advantage of the overall firm as well as the resources available to manage risk. He stated that BlackRock's competitive differentiators are their fiduciary culture, the team, and experience. BlackRock's fiduciary transition capabilities include the proven ability to deliver solutions, fiduciary culture and objectivity, capital markets access and expertise, risk management services, and strategic advice to meet client needs.

Ms. Jellian reviewed what BlackRock provides as a transition manager, noting that they are an investment manager through the entire process and are responsible for performance as well as delivering a cost effective transition through a comprehensive and transparent process. She reviewed the preparation, implementation, and completion stages of the transition management process. The preparation step involves the understanding of the scale and scope of the transition; the implementation step relates to controlling operational and market risks to minimize costs; and the completion stage involves handing over the portfolios with any required ongoing services as well as post-transition customized reporting.

Russell Implementation Services

Mr. Kirschner and Mr. Spinharney, Russell Implementation Services, introduced themselves.

Mr. Kirschner reviewed components of Russell's transition management solution: heritage; trust; and advice. He stated that Russell designs its investment management approach to transition management to improve investment performance.

Mr. Spinharney reviewed Russell's integrated suite of services in the areas of strategy, implementation, and project management, which are customized to specific client needs. He discussed the way Russell approaches risk management from the transition standpoint – including performance risk, operational risk, and reporting. Effective and focused risk management produces improved performance.

Mr. Kirschner reviewed strategies for reducing risk and improving performance through coordination. He reviewed the importance of delivering on expectations, continuing to provide clients realistic expectations regarding the costs of transitions, and Russell's ability to perform.

Mr. Masten moved that the Public Markets Committee recommend the Board approve the selection of Barclays Global Investors, N.A.; BlackRock, Inc.; and Russell Implementation Services, Inc. as transition managers for assignment to the optional-use transition management pool, subject to final negotiations of terms, conditions, and fees. Mr. Petit seconded.

Mr. Nierenberg reiterated his concern with extending a relationship with any vendor that does not work cooperatively with the WSIB in all matters.

The motion carried unanimously.

[The Committee recessed at 2:06 p.m. and reconvened at 2:20 p.m.]

[Ms. Schurke was in attendance at 2:10 p.m.]

In response to a request from Representative Sommers, Mr. Bruebaker commented on the current state of the market. Since their peak, U.S. equity markets are down 44 percent. Year-to-date, the U.S. equity markets are down almost 41 percent. The Commingled Trust Fund (CTF) reached its peak at September 30, 2007, at \$66.35 billion. In just over one year, it has dropped to just slightly more than \$50 billion (estimated November 30, 2008, balance), which does not reflect all the private equity and real estate markdowns that will be coming at year-end. Mr. Bruebaker stated that he believes the 24 percent decline in 14 months is better than most other funds of the WSIB's size. Mr. Bruebaker stated that he continues to believe that the markets will come back in time and that the WSIB is better positioned than most other public funds. The discipline and patience to continue our investment strategy are critical. The portfolios are well positioned and Mr. Bruebaker recommends the Board continue to invest as long-term investors.

[Mr. Kaminski was in attendance at 2:25 p.m.]

Chair Ragan announced that the Committee would go into executive session 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 WSIB or would result in private loss to the providers of the information. The executive session was expected to last approximately 1 hour, at which time the Committee would reconvene in open public session.

PUBLIC EQUITY 2009 ANNUAL PLAN

[The committee entered executive session at 2:28 p.m.]

[The committee reconvened in open public session at 3:32 p.m.]

Mr. Petit moved that the Public Markets Committee recommend that the Board adopt the confidential 2009 Public Equity Annual Plan that was presented and discussed in executive session. Ms. Schurke 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 3:34 p.m.