

**WASHINGTON STATE INVESTMENT BOARD
Public Markets Committee Meeting Minutes
February 3, 2009**

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
George Masten
David Nierenberg (via teleconference)
Mason Petit
Judy Schurke

Members Absent: Charlie Kaminski
John Magnuson
Robert Nakahara
Representative Sharon Tomiko Santos

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
Kristi Bromley, Administrative Assistant – Investments
Steve Dietrich, Assistant Attorney General

Paul Brakke, State Street Global Advisors
Lynn Blake, State Street Global Advisors
Tom Motley, State Street Global Advisors
Neil Tremblay, State Street Global Advisors

[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 – DECEMBER 2, 2008

Mr. Masten moved to adopt the December 2, 2008, Public Markets Committee minutes. Mr. Petit seconded, and the motion carried unanimously.

INDEX-RELATED PRODUCTS MANAGER PRESENTATION

Mr. Thatcher introduced himself and reviewed the process and results of the index-related products search. The current non-U.S. index contract with State Street Global Advisors (SSgA) expires March 31, 2009. Many of the WSIB programs use passive indexing, including defined benefit and defined contribution programs as well as qualified and nonqualified portfolios. Indexing is used to gain broad based equity exposure at the lowest possible cost. Callan Associates assisted WSIB staff with this search. The search process was similar to the one conducted for U.S. indexes in 2007 to provide the WSIB with access to all index-related products offered by the firm. The primary focus will be non-U.S. equity products. Because of its size, the WSIB requires significant capacity from any index-related manager.

Only two investment firms met the minimum requirements of the search: SSgA and Barclays Global Investors (BGI). Both firms exhibited strengths and advantages and scored well during the evaluation; neither had major weaknesses. While both firms are very competent managers of index products, three main factors contributed to the staff's recommendation of SSgA over BGI: (1) Incumbency—as the incumbent, SSgA has served the WSIB in this role for the past 13 years. Securities lending is imbedded into the index process and, because of the liquidity and volatility challenges in the current market, changing from one index provider and securities lending pool to another may cause significant turmoil and cost to the defined benefit portfolio as well as Plan 3 and DCP participants. (2) Diversification—the WSIB benefits from having two separate and different index providers. This also limits some operational and investment risks by not concentrating all passive mandates with one firm. (3) Performance—SSgA's performance record has been good and they have added between 20 and 40 basis points annualized over various time periods. There is no compelling reason to transition from SSgA and staff's recommendation is to award the new contract to them as the incumbent non-U.S. index manager.

Mr. Thatcher addressed the recent media attention that SSgA's parent company, State Street Corporation (SSC), has received regarding their recent fourth quarter 2008 announcement of a 71 percent drop in profits and discussed steps that have been taken to assure that the WSIB's holdings with SSgA are not affected by any potential credit rating downgrade of the parent company. Mr. Thatcher also reviewed the differences between investing in a commingled fund versus separate account. Investing in commingled funds for non-U.S. equity is preferred as they offer an easy platform for large-scale investments into many international markets, low cost access and economies of scale, low cost trading opportunities, and lower management fees and administration costs. He also discussed the additional characteristics of commingled funds wherein the manager votes the proxies and exercises any class action litigation rights as well as the role of securities lending in the investment management of index funds.

Discussion ensued regarding benchmarks, securities lending, and proxy voting. The Committee also discussed further due diligence to ensure that losses at a company's parent organization would not prevent WSIB from having access to our funds and or impair the safety of the WSIB's assets under all foreseeable circumstances.

Mr. Brakke, Ms. Blake, Mr. Tremblay, and Mr. Motley introduced themselves. Mr. Tremblay provided an organizational overview and discussed recent market challenges and the effect on SSC. SSgA is one of the three core businesses of SSC. Mr. Tremblay reviewed assets under management and steps SSC and SSgA have taken in response to the current market environment. There has been no personnel turnover associated with any of the accounts SSgA manages on the WSIB's behalf and the parent company continues to reinvest resources in SSgA in order to better serve client needs.

Mr. Brakke reviewed the global structured products group and strategies. Indexing is a core business for SSgA and a significant part of their total revenue. He reviewed the team, organizational structure, strategies, and assets under management by strategy. Ms. Blake reviewed SSgA's non-U.S. index experience including separate country funds, diverse client base, results, and assets under management. She provided an overview of various SSgA non-U.S. index strategies including index structure and methodology as well as portfolio construction and performance.

Mr. Motley discussed securities lending and provided an overview of SSgA's cash management by security type and asset backed securities allocation. He reviewed SSgA's cash collateral investment management objectives, process, and philosophy and discussed current challenges and opportunities. Mr. Motley reviewed the summary characteristics of SSgA's securities lending funds.

Discussion ensued regarding the uncertainty of recent market events, deterioration of the global economy, U.S. unemployment expectations and tie in with asset backed securities, depth of recession, and unintended consequences from government intervention.

Mr. Masten moved that the Public Markets Committee recommend the Board approve the selection of State Street Global Advisors as an index-related products investment manager for the WSIB, with a focus on non-U.S. index-related products, subject to final negotiations of terms, conditions, and fees. Mr. Petit seconded the motion.

The Committee and staff discussed appropriate safeguards surrounding protection of fund assets. It was agreed that as part of the "final negotiations of terms," WSIB staff from investments and contracts would work with legal counsel from the Attorney General's office and outside counsel if necessary to ensure that the contract contains appropriate wording to protect the fund's assets.

The motion carried unanimously.

[The Committee recessed at 2:22 p.m. and reconvened at 2:32 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 30 minutes at which time the Committee would reconvene in open public session.

ENHANCED INDEXING PROGRAM REVIEW

[The committee entered executive session at 2:32 p.m.]

[Mr. Nierenberg was no longer in attendance at 3:00 p.m.]

[The committee reconvened in open public session at 3:34 p.m.]

Mr. Petit moved that the Public Markets Committee recommend the Board approve the specific actions related to the U.S. equity enhanced index mandate within the Public Equity program discussed in executive session. Mr. Masten seconded, and the motion carried unanimously.

Ms. Schurke moved that the Public Markets Committee recommend the Board approve the specific actions recommended by the staff related to the non-U.S. equity enhanced index mandate within the Public Equity program discussed in executive session. Chair Ragan seconded, and the motion failed with Mr. Masten and Mr. Petit voting no.

Mr. Petit moved that the Public Markets Committee recommend the Board direct staff to execute the transition plan as recommended by the staff in executive session. Mr. Masten seconded, and the motion carried unanimously.

Mr. Petit moved that the Public Markets Committee recommend the Board direct staff to begin a competitive process to identify enhanced index managers for the Committee's and Board's consideration. Ms. Schurke seconded and the motion carried with Mr. Masten voting no.

OTHER ITEMS

There was no further business to come before the Public Markets Committee and the meeting adjourned at 3:38 p.m.