APPROVED

WASHINGTON STATE INVESTMENT BOARD
Public Markets Committee Meeting Minutes
May 4, 2010

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 Robert Nakahara (via teleconference) Judi Owens (via teleconference) Mason Petit Judy Schurke
Members Absent:	George Masten David Nierenberg
Others Present:	Theresa Whitmarsh, Executive Director Gary Bruebaker, Chief Investment Officer Bill Kennett, Senior Investment Officer – Fixed Income Philip Paroian, Senior Investment Officer – Public Equity Allyson Tucker, Assistant Senior Investment Officer – Public Equity Kristi Bromley, Administrative Assistant – Investments Chad Standifer, Assistant Attorney General William Sterling, Trilogy Global Advisors, LLC

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

The meeting convened with Chair Ragan identifying members present.

REVIEW AND APPROVAL OF MINUTES – JANUARY 5, 2010

Mr. Petit moved to adopt the January 5, 2010, Public Markets Committee minutes. Ms. Owens seconded, and the motion carried unanimously.

EDUCATION SESSION – THE CASE FOR GLOBAL INVESTING

Ms. Tucker introduced herself and noted the Board's 2005 decision to eliminate the home country bias in the public equity portfolio and the 2007 move to adopt a global strategic benchmark. The 2010 public equity annual plan recommended moving the public equity portfolio to four mandates – passive U.S., passive non-U.S., active global, and active emerging markets. Of the four, the active global equity mandate will be the primary focus in 2010 and 2011 as the active global equity search is conducted and implemented. Ms. Tucker introduced Mr. William Sterling, founder and Chief Investment Officer of Trilogy Global Advisors, and stated that he would provide the Committee with a practitioner's perspective on global equity investing.

Mr. Sterling reviewed the main points of his presentation: globalization is likely to accelerate in coming years; active global equity managers have outperformed; regional and country factors have waned as key drivers of global performance and the importance of stock selection has increased; and global active managers have several advantages over regional specialists.

Mr. Sterling noted that globalization is accelerating and the exponential growth of computing power and telecom is a key driver of globalization that is almost certain to accelerate over the next decade. Rapid structural change is often chaotic as evidenced by previous financial events. He reviewed the top 10 public companies by market cap in 2000 and 2009, noting that in 2000, nine out of the top ten global companies were American and by the end of the decade, only five were American. The weighting of emerging markets in the global economy is rising, with emerging markets being a driver of global growth; however, they remain significantly under-represented in global market indexes. Another reason for global investing, is that business is becoming increasingly borderless with many U.S. companies generating the majority of their income from global markets and many familiar brands in the U.S. actually having foreign owners. It no longer makes sense to try to arbitrarily partition portfolios with specific U.S. and non-U.S. weightings.

Mr. Sterling noted that correlations between U.S. and non-U.S. equity markets have risen over time, creating the need for greater performance driven by stock selection. It is more important to pick the right stocks rather than making country selection choices. Globalization has driven the rising correlation among markets in recent years and helps explain the global transmission of the financial crises.

Mr. Sterling noted that global managers should be able to create better portfolios than regional specialists since they have a broader universe of opportunities and more opportunity to arbitrage market imperfections; they may have more diverse inputs on global forces that drive local markets; and they have no incentive to own second tier companies for risk control purposes. He noted that diversification can reduce portfolio volatility. When markets are uncoordinated with each other, overall portfolio volatility is dampened. The one "free lunch" in global investing comes from the fact that returns from different markets are additive, but volatility is not. To lower portfolio risk, managers find pairs of stocks with negative correlation. Portfolio risk declines markedly when different stocks with similar long-term returns have returns that are negatively correlated from one another. If both stocks are trending up over time, but their ups and downs are out of phase, the portfolios returns are smoothed. Global managers have nearly 17 times the number of options that a U.S. manager has for pairing one stock with another for risk control purposes. A global approach can focus on regional comparative advantages. Global managers have greater scope to focus on sectors in regions which may enjoy comparative advantages, such as U.S. and Asia technology; European industrials, U.S. healthcare / medical devices.

Mr. Sterling concluded by noting that he believed that successful investment philosophies for the next several decades should be predicated on two assumptions: (1) the pace of technological change will accelerate and (2) the forces of globalization will intensify. With that in mind, he expects the home country bias of many investors will present a performance handicap. The paradigm of separating home country equity mandates from rest of world mandates is coming under increased critical scrutiny as empirical evidence favors the integrated global approach and theory suggests the global approach.

Discussion ensued regarding market correlations and active global management.

OTHER ITEMS

There was no further business to come before the Public Markets Committee and the meeting adjourned at 2:16 p.m.