

**WASHINGTON STATE INVESTMENT BOARD
Public Markets Committee Meeting Minutes
November 2, 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
George Masten
Robert Nakahara (via teleconference)
David Nierenberg (via teleconference)
Judi Owens (via teleconference)
Judy Schurke

Other Board Members Present: Bill Longbrake (via teleconference)
Treasurer McIntire

Others Present: Theresa Whitmarsh, 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
Kristi Bromley, Administrative Assistant – Investments

Steve Dietrich, Assistant Attorney General

[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 – SEPTEMBER 14, 2010

Mr. Masten moved to adopt the September 14, 2010, Public Markets Committee minutes. Ms. Schurke seconded, and the motion carried unanimously.

DEFINED CONTRIBUTION OPTION CHANGE IMPLEMENTATION PLAN

Mr. Paroian introduced himself and noted that the Public Markets Committee and the Board approved a revised menu of investment options for Plan 3s, Deferred Compensation Program (DCP), and Judicial Retirement Account (JRA) members in September 2010.

[Treasurer McIntire was in attendance at 1:01 p.m.]

Mr. Paroian reviewed a chart showing the current defined contribution options and the options adopted by the Board in September. While most of the investment options offered to participants did not change, the equity options were simplified and harmonized amongst the plans so that each offers the same basic building blocks, which will serve members well. The options are U.S. equity large cap, U.S. equity small cap value, global equity, and emerging markets equity.

Mr. Paroian reviewed the Board-adopted investment beliefs for the Retirement Commingled Trust Fund (CTF). Specifically, that active management in an asset class is warranted if: (a) the asset class, segment(s) of the asset class, or investment strategy is reasonably inefficient; (b) there exist managers or partners with skill, persistent performance, and sufficient capacity to meet the WSIB's needs; and (c) the WSIB is able to cost-effectively identify and retain those skilled managers or partners. Also, that a broadly diversified portfolio is preferable. While the Board adopted these beliefs for the CTF, they apply to the U.S. equity market, the global equity market, and the emerging markets whether in a defined benefit or defined contribution setting.

Mr. Paroian reviewed the recommended implementation strategy for the revised defined contribution options. No changes are proposed for the target date strategies, socially responsible balanced fund, WSIB TAP, Bond Market, Money Market, or Savings Pool options. Staff recommends passive management for U.S. equity, a mix of passive and active management for global equity, and primarily active management for emerging markets equity.

Mr. Paroian reviewed the issue of manager selection for the new options. The WSIB currently has two passive managers under contract, BlackRock Institutional Trust Company (BTC) and State Street Global Advisors (SSgA). Under these existing contracts, the WSIB can utilize any passive product the manager offers. BTC currently manages the U.S. Large Stock Fund, and staff recommends continuing with BTC for this fund to limit the number of changes. Staff will ask for fee quotes from both BTC and SSgA for the U.S. Small Stock Value Fund and decide between the two managers based on the best fee structure for members. This can also be done under the existing contracts. WSIB has contracts with a range of emerging markets equity managers and will have contracts with global equity managers following completion of the current search. These are the managers that WSIB knows best and in whom the WSIB has the highest conviction. Therefore, staff recommends using these managers for the defined contribution programs as well.

[Mr. Nierenberg was in attendance at 1:12 p.m.]

Mr. Paroian reviewed the advantages of staff's recommended approach. Namely, it is consistent with the WSIB's investment beliefs; keeps changes to a minimum; can be implemented without

any additional searches beyond the current global equity selection process; focuses WSIB management with the investment management firms we know best and in whom we have the highest conviction; adds manager diversification to any equity options that include active management; and incorporates industry best practices in terms of multi-manager implementation. He also noted some operational challenges associated with the recommended strategy. Public equity staff will be working with WSIB operations staff to determine how best to manage and unitize multi manager options. There is also a challenge with the WSIB's emerging markets managers in that some funds may not have a vehicle set up to handle the daily cash flows associated with defined contribution plans. Staff will continue working with current managers on this issue. In addition, some members may be upset about losing the opportunity to choose their own managers and/or may be upset at losing access to mutual fund names with whom they are familiar.

Mr. Paroian stated public equity staff would continue working with operations staff to explore the feasibility and logistics of implementing multi-manager options and surveying our existing managers about their ability to offer daily liquidity defined contribution vehicles. Staff will report to the Public Markets Committee on the outcome of this research. If it turns out that multi-manager options are infeasible logistically, staff will re-examine the recommended implementation.

Subsequent to the completion of the global equity search, public equity staff will model which combination(s) and weights of global (passive and active) and emerging markets (active) managers are appropriate for the defined contribution programs. Staff will report to the Public Markets Committee on their recommendations.

Throughout this process, WSIB staff will continue to coordinate closely with the Department of Retirement Systems.

In response to a question from Mr. Masten, Mr. Paroian confirmed that using the same managers for both defined benefit and defined contribution accounts should result in lower active management fees than if the program used stand-alone mutual funds. Mr. Masten noted the proven benefits to the majority of plan participants when the number of decisions they face are reduced.

Mr. Masten moved that the Public Markets Committee recommend the Board approve the proposed implementation approach to the new defined contribution options. 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 1:19 p.m.