

**WASHINGTON STATE INVESTMENT BOARD
Public Markets Committee Meeting Minutes
January 4, 2011**

The Public Markets Committee met in open public session at 1:01 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

Members Absent: Judy Schurke

Other Board Members Present: Bill Longbrake
Treasurer McIntire

Others Present: Theresa Whitmarsh, Executive Director
Gary Bruebaker, Chief Investment Officer
Philip Paroian, Senior Investment Officer – Public Equity
Allyson Tucker, Asst. Sr. Inv. Officer – Public Equity
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 – NOVEMBER 2, 2010

Mr. Masten moved to adopt the November 2, 2010, Public Markets Committee minutes. Ms. Owens seconded, and the motion carried unanimously.

PUBLIC EQUITY 2011 ANNUAL PLAN

Mr. Paroian introduced himself, reviewed the structure of his presentation, and introduced the public equity team. He noted that some major changes and projects were undertaken in 2010 and 2011 will be a busy year implementing and building on the initiatives started in 2010. Mr. Paroian reviewed some of the Board's investment beliefs for the Commingled Trust Fund (CTF) that pertain to public equity and additional equity-related investment beliefs. He reviewed public equity initiatives from the six-year WSIB strategic plan, additional considerations for the public equity program, and keys to success.

Mr. Paroian reviewed key points of the 2010 annual plan, including global investing, emerging markets, and the desired return distribution for public equity managers. He reviewed the specific governance and implementation issues associated with the WSIB's public equity structure, specifically the Office of Financial Management's personal services contract procurement bidding requirements and program capacity constraints. Theresa Whitmarsh noted that the WSIB might review the applicability of OFM's procedure to Public Equity searches during 2011. Mr. Paroian discussed the criteria for benchmarks and benchmark providers. Mr. Paroian reviewed the CTF's asset allocation targets, noting that the Board has allocated a significant amount to private markets in the belief that they generate a higher risk-adjusted return than public markets and this has implications for the liquidity requirements and risk parameters for public equity within the CTF.

Mr. Paroian reviewed the 2010 annual plan recommendations and the unit's 2010 accomplishments. In 2010, the CTF public equity portfolio migrated toward a broader, more flexible, more global structure that is focused on passive U.S., passive international, active international or global, and active emerging markets. Discussion ensued regarding passive investing and addressing anomalies in the benchmarks. Public equity undertook three transformational initiatives in 2010: a global/international search manager search for the CTF; comprehensive review of the defined contribution options offered to Plan 3, Deferred Compensation, and Judicial Retirement Account members conducted with Asset Allocation and DRS; and implementation of improved manager database and risk management analytics

Mr. Paroian reviewed the extensive process used for the global/international search that will culminate in Board selection of recommended managers in April. He discussed the review of the defined contribution options, the implementation of which will involve close coordination with the Department of Retirement Systems. Implementation is expected to be in the second half of 2011. He then asked Ms. Tucker to demonstrate the upgraded data tools used by public equity.

Ms. Tucker introduced herself and provided an overview of two new data tools – a manager database and risk analytics system. She discussed how the tools are used to provide greater insight into public equity managers' activities. Historically, the WSIB has relied on managers, our custodian, and consultants to provide information about managers, accounts, and positioning. By upgrading analytical tools, staff is able to continue the process of deepening their understanding of the equity portfolios and improve overall risk management.

Ms. Whitmarsh noted that with these types of tools, which were previously not available to the WSIB, staff is able to gather the same type of data asked for in the public manager search

process. With the use of the enhanced analytic tools, the WSIB can run a very transparent and thorough search process. The tools currently available to us have advanced far beyond the existing competitive search process policy. These facts support discussing with the Office of Financial Management options to the current procurement policy.

Discussion ensued regarding how the information from the new analytical tools will inform decision making and monitoring.

Mr. Paroian continued his review of 2010 accomplishments and introduced 2011 initiatives, which focus in a large part on implementing projects undertaken in 2010. He also reviewed research topics for 2011 and beyond.

Discussion ensued regarding global passive investing and regarding the workload versus the current resources limitations.

Mr. Masten moved that the Public Markets Committee recommend the Board adopt the 2011 Public Equity Annual Plan. Ms. Owens 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 3:19 p.m.