

**WASHINGTON STATE INVESTMENT BOARD
Public Markets Committee Meeting Minutes
March 1-2, 2011**

The Public Markets Committee met in open public session at 12:03 p.m. on March 1, 2011, at the Washington State Investment Board (WSIB) office at 2100 Evergreen Park Drive Southwest, Olympia, Washington.

Members Present: Mike Ragan, Chair
Bill Longbrake
George Masten
David Nierenberg
Judi Owens
Judy Schurke

Members Absent: Robert Nakahara

Other Board Members Present: Treasurer McIntire

Others Present: Theresa Whitmarsh, Executive Director
Gary Bruebaker, Chief Investment Officer
Phil Paroian, Senior Investment Officer – Public Equity
John Lynch, Contracts Manager
Kristi Bromley, Administrative Assistant – Investments

Stephen Docherty, Aberdeen Asset Management PLC
Kieran McGlynn, Aberdeen Asset Management PLC
Peter Rathjens, Arrowstreet Capital, L.P.
Elizabeth Desmond, Mondrian Investment Partners Ltd.
Patricia Karolyi, Mondrian Investment Partners Ltd.
George Greig, William Blair & Company, PLC
Ken McAtamney, William Blair & Company, PLC
John McLaughlin, William Blair & Company, PLC
Ramzi Rishani, Longview Partners LP
Alistair Graham, Longview Partners LP
David Iben, Tradewinds Global Investors, LLC
Ranjit Sufi, Tradewinds Global Investors, LLC
Richard Hirayama, Wentworth, Hauser and Violich
Jeffrey Romrell, Wentworth, Hauser and Violich
Anthony Foley, DE Shaw Investment Management, LLC
Brendan McDonough, DE Shaw Investment Management, LLC
Trey Beck, DE Shaw Investment Management, LLC

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

March 1, 2011

The meeting convened with Chair Ragan identifying members present.

REVIEW AND APPROVAL OF MINUTES – FEBRUARY 1, 2011

Ms. Owens moved to adopt the February 1, 2011, Public Markets Committee minutes. Ms. Schurke seconded, and the motion carried unanimously.

ACTIVE GLOBAL/NON-U.S. EQUITY MARKETS INVESTMENT MANAGEMENT INTERVIEWS

Mr. Paroian introduced himself and reviewed the active global/non-U.S. equity markets management search conducted by staff, including the reasons for conducting the search and the decision to focus on global equity management. Mr. Paroian reviewed the method used for the search, highlighting the pre-procurement background research, use of consultants, screening and evaluation, and onsite due diligence. He presented staff's recommendation to re-hire four incumbent managers under new contracts, hire two new managers to add to the nucleus of the active equity manager program, and hire two satellite managers. Mr. Paroian reviewed the overall fit of the recommended managers in the equity portfolio. The review included a global equity style map, assessment of the overall risk profile of the recommended program, and diversification components of the recommended managers.

Discussion ensued regarding fees and the strategy focus of the managers. With one exception, all the recommended strategies are global and the managers will invest where they find the best opportunities. One of the recommended managers, Mondrian Investment Partners (Mondrian), does not have a suitable global strategy and, accordingly, staff is recommending their international equity strategy. Mondrian has delivered long-term value-added returns over a 12.5 year relationship with the WSIB and is a firm in which staff has high conviction.

Aberdeen Asset Management PLC

Mr. McGlynn, Aberdeen Asset Management PLC (Aberdeen), introduced himself and Mr. Docherty. He reviewed Aberdeen's competitive advantages, including long history of investing across all equity classes; experienced, stable, and cohesive global equity team; robust investment process; proprietary research; independence; and strong track record.

Mr. Docherty reviewed Aberdeen's global equity team, noting their integration, interdependence, complementary skill set, culture, and team based approach. Trust and empowerment are key factors for Aberdeen. The team members are generalists and have collective responsibility for investment decisions. The global equity team utilizes proprietary research produced by regional teams. Mr. Docherty highlighted key points: bottom up portfolio construction; reliance on proprietary research; high conviction portfolio diversified by business type; benchmark agnostic style; buy-and-hold approach with low turnover; team based approach with consensual decision-making, although senior managers have final say; and risk control at the stock level through rigorous process and discipline.

Mr. Docherty reviewed Aberdeen's global equity process. Regional teams focus on specific company research, though they each manage portfolios too. Using the buy list produced by the regional teams, the global team conducts comparative analysis across regions and sectors, focusing on valuation differentials, and identifies unique companies to construct a diversified portfolio of businesses. He reviewed their portfolio construction process, which starts with an unconstrained model portfolio constructed over time. Factors considered in portfolio construction include portfolio objective, geographical location, liquidity, mandate, and constraints. The exact weightings and allocation for each portfolio is refined on an ongoing basis. He reviewed risk in the portfolio, noting that Aberdeen sees risk in absolute terms, and reviewed typical portfolio and risk characteristics.

Mr. Docherty reviewed relative country and sector positions in a representative account. He noted that portfolio diversification is from a country/regional perspective as well as sector perspective. He reviewed the top 20 portfolio holdings by market value in a representative account, which depicted a high conviction portfolio of business in various sectors and countries from around the world.

Discussion ensued regarding geographical diversification and the global nature of companies.

Arrowstreet Capital, L.P.

Mr. Rathjens, Arrowstreet Capital, L.P. (Arrowstreet), introduced himself and provided an organizational overview. Arrowstreet is a specialist global/international and emerging markets equities manager that is committed to their ongoing research program. Arrowstreet is wholly owned and controlled by senior management, which leads to low turnover. He reviewed assets under management by strategy, asset and client growth, and a representative client list.

Mr. Rathjens reviewed the global equity strategy, which has the objective of consistently outperforming broad global indices and has a core investment style that is style neutral over long periods, risk controlled, and outperforms during a broad range of market environments. He noted that Arrowstreet's investment approach provides diversification from other managers.

Mr. Rathjens reviewed Arrowstreet's investment philosophy to add value by indentifying investment signals that are relevant to prices, reflected slowly in prices, and derived from both behavioral and informational mispricings. Arrowstreet adds value by utilizing quantitative tools that measure both direct and indirect effects. Direct effects relate to individual stocks and indirect effects relate to country, global sector, country/sector basket, and related-company information. Their disciplined approach avoids emotional overrides in the investment process.

[Treasurer McIntire was in attendance at 1:50 p.m.]

Mr. Rathjens provided an example of Arrowstreet's focus on indirect effects—the influence of countries, sectors, baskets, and expanded linkages. He reviewed their investment process: building an integrated stock forecast based on sector information, country information, basket information, stock information, and expanded linkages. He reviewed their portfolio construction process wherein Arrowstreet simultaneously evaluates forecast, risk, style exposure, and transaction costs. He provided an example of a trade and how the direct effects, indirect effects,

and expanded linkages are analyzed. He stressed that a person always has to review a trade before it can be conducted; the quantitative system cannot trade without a human's review. Discussion ensued regarding Arrowstreet's global equity process.

[The Committee recessed at 2:12 p.m. and reconvened at 2:30 p.m.]

Mondrian Investment Partners Ltd.

Ms. Desmond and Ms. Karolyi, Mondrian, introduced themselves. Ms. Karolyi reviewed Mondrian's organizational history, including assets under management, ownership structure, and the equity ownership plan to attract, retain, and motivate highly skilled people. She noted that the majority of investment professionals have ownership equity in the firm. Ms. Karolyi noted that all Mondrian's products utilize an income-orientated value discipline that has been successfully applied since the company's founding. Mondrian has in-depth global fundamental research and a well-resourced team with low turnover of professional staff and a strong culture of client service and support. She reviewed Mondrian's organizational chart and the equity strategy committee structure for non-U.S. equity. She reviewed a representative client list and reviewed the type of clients served, types of assets managed, and Mondrian's diverse investment products, which all utilize the same dividend discount model approach.

Ms. Karolyi stated that Mondrian is a value-orientated defensive manager that defines the value of any investment as present value of cash flows. They believe strongly that the dividend discount model is a valid tool for analyzing the underlying value of companies. Their model is applied consistently in all investment markets across the globe. They have three key return objectives: (1) provide a rate of return greater than the client's domestic rate of inflation; (2) preserve capital during protracted global market declines; and (3) provide portfolio performance that is less volatile than the benchmark index and most other managers. She reviewed Mondrian's historic track record since inception of the relationship with the WSIB as measured against those three return objectives. Ms. Karolyi reviewed Mondrian's investment process, which consists of a value-orientated dividend discount methodology for individual security and market analysis designed to identify value across country boundaries, a long-term orientated purchasing power parity approach supplemented by shorter-term probability assessment as the cornerstone of on-going currency analysis, and extensive world-wide fundamental research with an emphasis on company visits.

Discussion ensued regarding the impact of dividends on returns and volatility.

Ms. Desmond reviewed Mondrian's process for portfolio construction, including the framework for decision making, which is both bottom-up and top-down. Bottom-up analysis is based on security research and top-down analysis focuses on country allocation and currency analysis. She reviewed Mondrian's purchasing power parity approach to currency analysis and their sell discipline. Ms. Desmond reviewed country and sector allocation as well as summary portfolio characteristics. She summarized Mondrian's competitive advantages: employee ownership; well-resourced team; disciplined process; and value approach.

Discussion ensued regarding Mondrian's view on emerging markets and market capitalization biases.

William Blair & Company, PLC

Mr. McLaughlin, William Blair & Company, PLC (William Blair), introduced himself and Messrs. McAtamney and Greig. Mr. McLaughlin reviewed William Blair's differentiating factors of entrepreneurial culture, independence, and long-term private ownership of the firm, which allows them to focus entirely on investment management. Mr. Greig reviewed William Blair's investment philosophy. Their investment process, research, and portfolio construction focuses first and foremost on the companies. They look for the ability to create value added in the long term through organic growth. Companies achieve long-term success largely based on intrinsic characteristics. Discipline, focus, culture, and continuity can drive sustainable superior returns and growth in dividends and earnings. Their quality growth factors focus on value creation and return analysis first as well as risk management at the valuation level and stock market variables of short-term economic profit second. The quality growth philosophy tends to perform well in up markets but may also protect somewhat in down markets.

Mr. McAtamney reviewed William Blair's research process, noting the research process is the same for all their equity strategies. Analysts are tasked to find the best investment stock ideas that fit within identified criteria that are driven by their strategic viewpoints and fundamentals. The global growth product is their least constrained product across all cap sizes and across the globe; accordingly, this should be their highest conviction portfolio. William Blair's stock selection process has a great deal of focus on accessing qualitative factors but also uses quantitative measurement tools to measure corporate performance at the company level. Their global portfolio construction focuses on world leaders, locally dominant firms, and tomorrow's winners. They believe the optimal way to evaluate the growth prospects of quality companies is to assess the global competitive landscape and supply chain dynamics. They seek to identify the best companies in the world, regardless of size, sector, or region.

Discussion ensued regarding company visits.

Mr. Greig reviewed the portfolio characteristics, noting that their holdings have historically exhibited superior profitability and growth, better balance sheet structure, and reasonable valuation rates. The global portfolio is designed to allow fundamental stock selection to take precedence over benchmark sensitivity or tactical positioning. Holdings are relatively concentrated, with no attempt to target specific industry or country representation. The portfolio is built by bottom-up stock selection that is then matched with their view of the world. Mr. Greig noted their holdings have historically exhibited superior profitability and growth, better balance sheet structure, and reasonable valuation rates. The portfolio concentrates on the characteristics of quality, such as growth, return on equity, return on invested capital, sustainable return on assets, and reinvestment rate, as well as shorter-term variable such as valuation. He reviewed how the portfolio construction and risk control processes relate to the research process.

Discussion ensued regarding portfolio construction, risk controls, and concentration.

[The Committee recessed at 3:53 p.m. and reconvened at 4:07 p.m.]

Longview Partners LP

Mr. Rishani, Longview Partners LP (Longview), introduced himself and Mr. Graham. Mr. Rishani provided background information on the organization, including ownership structure. The organization is 70 percent owned by the 11 working partners with the remainder owned by a Dutch bank; they are currently in discussions to purchase the bank's interest. Mr. Rishani noted that Longview focuses exclusively on managing global equities. He reviewed their client base, assets under management, and organizational chart. Mr. Rishani reviewed Longview's investment philosophy. They have a concentrated global portfolio consisting of 30 to 35 stocks that are well diversified. The portfolio is built with a bottom-up global approach that is index agnostic. Their disciplined investment process focuses on superior quality companies with improving business fundamentals and attractive cash-based valuations. The research process drives portfolio investments, their strict sell discipline is based on preset price targets, and they maintain strict risk management oversight. They strive to invest in predictable companies and avoid companies sensitive to factors beyond management's control. Macro factors are viewed as risks rather than opportunities.

Mr. Graham reviewed the investment criteria for stocks: quality, fundamentals, and valuation. He discussed what is involved in each criterion and reviewed Longview's decision-making process.

Mr. Rishani reviewed Longview's differentiating factors, which includes their ability to focus on reality versus perception with quality derived from predictable business models and emphasis on allocation of capital. Other differentiating factors are objectivity, discipline, and consistency.

Mr. Graham reviewed valuation as free cash flow yield and upside to price targets of the portfolio. Discussion ensued regarding their views on various companies and the effect on their hold or sell decisions.

[Treasurer McIntire was no longer in attendance at 4:49 p.m.]

Further discussion ensued regarding company analysis and geographic distribution being a result of their bottom-up investment process.

Mr. Rishani reviewed the portfolio's sector allocations and holdings and noted that transparency of process is very important to Longview. He reviewed their cumulative outperformance of the index, noting they are less likely to outperform when their fundamental, bottom-up stock specific process is out of favor. Mr. Rishani reviewed the method they use to monitor the key risk drivers of the portfolio: macro-economic, commodities, currencies, end market risk, geo political, company leverage, and trading.

[The Committee recessed for dinner at 5:01 p.m. and reconvened at 5:33 p.m.]

Tradewinds Global Investors

Mr. Sufi, Tradewinds Global Investors, LLC (Tradewinds), introduced himself and Mr. Iben. Mr. Sufi noted Tradewinds has just one philosophy and one platform for investing and their disciplined process. Capital preservation and alpha generation are key components of the strategy.

Mr. Iben stated that Tradewinds considers value a prerequisite and not just a philosophy. Their job is to understand industry drivers and businesses. They do not view markets as entirely efficient and seek to buy stocks for less than their intrinsic value. He provided an organizational overview focused on philosophy, objectives, process, and people. Tradewinds searches globally for economic comparative advantages and conducts bottom-up research to assess company/industry fundamentals. He reviewed the research team, which focuses on a select group of industries and their unique characteristics. Each industry is measured on its own merits to identify which companies are positioned to perform well. When analysts find industries that look good, they seek out companies with competitive advantages and then determine the correct prices. He reviewed their decision-making and portfolio construction processes as well as risk management. Tradewinds is index agnostic as indexes can be overpriced and are cap weighted. Permanent loss of capital is the main risk they seek to avoid and they do not view volatility as a risk since they are long-term investors.

Mr. Iben reviewed Tradewinds investment process and the three essential factors for stock selection: attractive absolute valuation; franchise quality; and favorable risk/reward. He reviewed their research process, sell discipline, and investment guidelines. He reviewed the portfolio characteristics, sector weights, geographical distribution, and top ten holdings.

Discussion ensued regarding Tradewinds bottom-up, opportunistic style, performance in various market conditions, and their view of the materials and energy sectors.

[The Committee recessed at 6:15 p.m. on March 1, 2011.]

March 2, 2011

[The Committee reconvened in open session at 8:00 a.m.]

Chair Ragan called the meeting to order and identified members present.

ACTIVE GLOBAL/NON-U.S. EQUITY MARKETS INVESTMENT MANAGEMENT INTERVIEWS –CONTINUED

Mr. Paroian reviewed the recommended funding amounts for the satellite managers.

Wentworth, Hauser and Violich

Mr. Romrell, Wentworth, Hauser and Violich (WHV), introduced himself and Mr. Hirayama. Mr. Hirayama reviewed his background, noting that he developed WHV's equity management approach in 1995. The investment philosophy is grounded in the belief that the world has changed to a wide-open capitalistic world and borders no longer matter. Accordingly, investment management must change to accommodate the one-world capitalistic economy. WHV divides the world into ten sectors and focuses on the larger cap stocks in each sector/industry that they believe have the best 3 – 5 year prospects. Mr. Hirayama reviewed WHV's top-down investment process, noting that with the fall of communism the world has undergone a major structural change that is the greatest economic transformation humanity has ever seen. That shift necessitated a change in the investment management process, which WHV

implemented in 1995. They first perform economic sector analysis, followed by industry analysis, and then country and stock selection analyses.

Mr. Hirayama reviewed WHV's portfolio structure, including portfolio characteristics, sector and country weightings, and top ten holdings. Energy has been their largest sector weight for the past 11 years. He noted the portfolio turnover rate of around 7 percent a year is the lowest in the industry. WHV believes the way to add alpha over an extended period is to have a long-term focus. He reviewed WHV's decision in early 2000 to migrate out of information technology to the old economy sectors that they currently hold and reviewed the historical performance of the major sectors over the first decade of the millennium

Mr. Hirayama reviewed the dominant global economic forces of the new world, reiterating that this is why they created their global macro top-down investment process. The dominant global economic forces are global capitalism; emerging markets as the world's growth engine; industrial revolution in the emerging markets; global growth is energy and natural resource intensive; long-term supply constrain of energy and natural resources; and energy, materials, and industrial sector investments are favored. He reviewed how WHV has structured the portfolio to benefit from emerging markets growth without investing heavily in the emerging markets themselves.

Discussion ensued regarding super cycle trends,

[Treasurer McIntire was in attendance at 8:34 a.m.]

Further discussion ensued regarding inflation, current unrest in the Middle East, and the portfolio's cash holdings.

DE SHAW INVESTMENT MANAGEMENT, LLC

Mr. McDonough, DE Shaw Investment Management, LLC (DESIM), introduced himself and Msrs. Beck and Foley. Mr. Beck provided an organizational overview, including staff and assets under management. DESIM's quantitative process is very research and technology intensive; accordingly, their investment process is marked by three critical factors: staff, research, and technology. He noted the usefulness and limitation of quantitative tools and the importance of the research process being derived from fundamental and qualitative factors.

Mr. Beck provided an overview of DESIM's investment process and portfolio optimizer. The process is completely computational, quantitative, and systematic in the minute-to-minute management of the portfolio. There are three pieces to the optimizer: alpha generation; transactional analysis, and risk analysis. The optimizer governs the portfolio in real time and considers all three factors at the same time, analyzing across multiple time horizons. Trading is conducted throughout the day based on the optimizer's decisions on what makes the best theoretical portfolio and the corresponding impact on the actual portfolio. Investment research is grounded on the notion that they want to understand the investment environment qualitatively as well as quantitatively. The process starts with qualitatively understating the motivations, incentives, and inefficiencies that occur in the market place.

Mr. Foley reviewed the alpha generation aspect of DESIM's investment process that is based on technical models, event-driven models, and fundamental models. They diversify by having many relatively small forecasts and not relying on just one. The three categories are quite different and take a different amount of time to come through in the markets. Mr. Foley reviewed the risk analysis and transactional analysis aspects of DESIM's investment process and portfolio optimization.

Mr. Beck reviewed how DESIM's benchmark relative strategy generates return in excess of the prescribed benchmark.

Discussion ensued regarding the optimizer's ability to handle very abrupt market changes, number of stocks held in the long only portfolio, affect of additional assets under management on the portfolio optimizer, and scalability of DESIM's infrastructure. Discussion also focused on DESIM's heavy reliance on technology and their quantitative strategy as well as proxy voting.

Following the manager presentations, the Committee and staff discussed the manager search and due diligence process, member's thoughts on the managers, and fit of the managers in the construction of the overall equity portfolio. Mr. Paroian discussed the withdrawal of one of staff's recommended satellite managers—Independent Franchise Partners—from further consideration due to the inability to come to agreement on two key contract terms.

Ms. Owens moved that the Public Markets Committee recommend the Board hire the following managers for the global/non-U.S. active equity mandate within the CTF, subject to continued due diligence and successful negotiation of terms and conditions:

- **Aberdeen Asset Management PLC**
- **Arrowstreet Capital, L.P.**
- **Mondrian Investment Partners Limited**
- **William Blair & Company, LLC**
- **Longview Partners LP**
- **Tradewinds Global Investors, LLC**
- **Wentworth, Hauser and Violich**

Mr. Masten seconded, and the motion carried unanimously.

Ms. Owens moved that the Public Markets Committee recommend the Board hire DE Shaw Investment Management, LLC for the global/non-U.S. active equity mandate within the CTF, subject to continued due diligence and successful negotiation of terms and conditions. Ms. Schurke seconded.

Mr. Masten stated that he is troubled by the strong quantitative nature of DESIM's process and would be voting no on the motion.

Mr. Bruebaker stated that he accompanied staff on the due diligence onsite visit with D.E. Shaw as he wanted to get to know more about the firm's process. He had always been impressed by

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DE Shaw's reputation and, after the onsite due diligence visit, he came away being impressed by the DESIM strategy management and process.

Further discussion ensued regarding the Committee's view of DESIM and staff's due diligence on the firm and strategy.

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 10:21 a.m.