

WASHINGTON STATE INVESTMENT BOARD
Public Markets Committee Meeting Minutes
May 3, 2011

The Public Markets Committee met in open public session at 1:04 p.m. on May 3, 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
 Robert Nakahara (teleconference)
 David Nierenberg (teleconference)
 Judi Owens

Members Absent: Judy Schurke

Other Board Members
Present: Steve Hill
 Treasurer McIntire

Others Present: Theresa Whitmarsh, Executive Director
 Phil Paroian, Senior Investment Officer – Public Equity
 Allyson Tucker, Assistant Senior Investment Officer – Public Equity
 David Thatcher, Investment 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 – MARCH 1-2, 2011

Mr. Masten moved to adopt the March 1-2, 2011, Public Markets Committee minutes. Ms. Owens seconded, and the motion carried unanimously.

PLAN 3/DCP/JRA NEW INVESTMENT MENU IMPLEMENTATION

Mr. Paroian introduced himself and noted that in September 2010 Ms. Will, Asset Allocation Senior Investment Officer, presented to the Public Markets Committee an analysis on the investment options in the defined contribution programs, which resulted in the Board adopting new equity-only options for the defined contribution plans. In November 2010, public equity staff made recommendations regarding the implementation of the new options, which entailed passive management of the two U.S. equity options, mix of passive and active of the global equity option, primarily active management of the emerging markets equity options, and use of multi-manager options for diversification. Staff indicated that they would continue to explore the feasibility and logistics of implementing multi-manager, daily liquidity options and would come back to the Public Markets Committee either with specific recommendations regarding managers or to revisit the use of multi-manager options if it was logistically impossible. The thought was to use existing managers to implement these options. After talking with the WSIB's emerging and global equity managers, a few things became apparent. Many managers had capacity constraints and those that were open to new assets in a defined contribution vehicle used a mutual fund setup that had much higher fee structures than the current options. Some managers do have institutional commingled options with lower fees but those do not offer daily liquidity, which the Department of Retirement Systems has indicated is an important feature for participants.

While staff philosophically continues to support the recommendations presented in November, including active management in daily liquidity global equity or emerging markets options, without a critical mass of assets under management there are logistical hurdles that would result in very high expenses and fees, or in having to accept less than daily liquidity. Both global equity and emerging markets are new options and it will take time for the assets to grow. Accordingly, it was determined that the best route was to implement all four equity-only options as passively managed, daily liquidity commingled accounts. When assets approach a feasible size of approximately \$100 million in assets under management in these products, staff will re-examine adding active management within the global and emerging markets equity options and return to the Public Markets Committee with specific implementation recommendations.

Both of the WSIB's passive equity managers submitted bids for the new options. BlackRock Institutional Trust Company's (BTC) bid was stronger and their fees were lower than State Street Global Advisors' (SSgA) bid. In addition, BTC's passive emerging markets fund has tracked the benchmark much more closely than SSgA's emerging markets passive fund.

Discussion ensued regarding the new options and duration of the investment management contracts. Mr. Hill noted the close collaboration of WSIB and DRS staff on the option changes and stated that this was a good change for the defined contribution programs. Further discussion ensued regarding the lower fees of the new funds compared to current options.

Mr. Masten moved that the Public Markets Committee recommend to the Board that all equity-only options under the newly designed Plan 3, Deferred Compensation Program, and Judicial Retirement Account menus be managed passively by BlackRock Institutional Trust Company. 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 1:19 p.m.