

**WASHINGTON STATE INVESTMENT BOARD
Public Markets Committee Meeting Minutes
November 6, 2012**

The Public Markets Committee met in open public session at 11:03 a.m. on November 6, 2012, at the Washington State Investment Board (WSIB) office at 2100 Evergreen Park Drive Southwest, Olympia, Washington.

Members Present: Judi Owens, Chair
Bill Longbrake (teleconferenced)
Robert Nakahara
Mike Ragan
Natasha Williams

Members Absent: George Masten
David Nierenberg
Judy Schurke

Others Present: Theresa Whitmarsh, Executive Director
Gary Bruebaker, Chief Investment Officer
Bill Kennett, Senior Investment Officer – Fixed Income
Phil Paroian, Senior Investment Officer – Public Equity
Allyson Tucker, Senior Investment Officer – Risk Management
and 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 Owens identifying members present.

REVIEW AND APPROVAL OF MINUTES – DECEMBER 6, 2011

Ms. Williams moved to adopt the December 6, 2011, Public Markets Committee minutes. Mr. Ragan seconded, and the motion carried unanimously.

INDUSTRIAL INSURANCE INVESTMENT CONSULTANT RECOMMENDATION

Mr. Kennett introduced himself and noted the contract for the Board's industrial insurance investment consultant expires at the end of 2012. The WSIB issued a request for qualifications and quotations during the summer and received one response, which was from the incumbent firm, Conning Asset Management. Two members of the WSIB's investment staff and one of the Department of Labor and Industries (L&I) actuaries evaluated the response. Conning has worked with the WSIB and L&I for over 20 years. Over that time, Conning has consistently demonstrated understanding of the complexities of insurance investing and has served the WSIB and L&I well. Based on Conning Asset Management's response to the RFQQ, staff's satisfaction with the quality of their work, and with the concurrence of L&I, Mr. Kennett provided staff's recommendation that the Committee recommend the Board retain Conning Asset Management as the L&I industrial insurance investment consultant. The contract would be for a 5-year period with a possible 5-year extension, starting January 1, 2013.

Ms. Williams moved that the Public Markets Committee recommend the Board select Conning Asset Management as the Industrial Insurance Investment Consultant for the WSIB, subject to final negotiation of terms, conditions, and fees. Mr. Ragan seconded, and the motion carried unanimously.

INVESTMENT POLICY REVISIONS

Mr. Kennett stated that staff proposes revisions to four investment policies governing the fixed income portfolios, specifically the Fixed Income – Retirement Funds Policy 2.10.200; Bond Market Fund Policy 2.14.200; Labor and Industries' Insurance Funds Policy 2.20.100; and Permanent Funds Policy 2.25.100. The revisions to all four policies contain language to clarify what are permissible fixed income investments. The Fixed Income – Retirement Funds policy revisions also address liquidity concerns by providing the ability to suspend the policy's sector ranges for fixed income investments if liquidity in the public markets is impaired. Without the revisions, during a liquidity crisis there could be forced sales of credit securities to fund capital calls from private market investment or to pay monthly benefits. The policy revisions to the Fixed Income – Retirement Funds policy also allow a higher credit allocation, which might allow a higher coupon return at a time of very low interest rates.

Ms. Tucker introduced herself and reviewed a proposed revision to the public equity benchmark in the Permanent Funds Policy 2.25.100. In 2011, staff conducted a global equity benchmark review to identify the most appropriate benchmark for the public equity program. The Board adopted the MSCI All Country Investable Market Index for the CTF public equity program and the MSCI Investable Market Index series of benchmarks for all the equity programs, consistent with the preference to utilize one family of benchmarks for all accounts. Subsequent to that review, staff conducted an asset allocation study for the permanent funds, which resulted in approval of a new equity strategy. While reviewing implementation options for the new equity strategy, it was determined that the strategies best matching the permanent funds' desired goals and objectives were benchmarked against the

Russell 3000. This revision updates the policy to reflect the Russell 3000 as the benchmark for the equity strategies implemented in June 2012.

Discussion ensued regarding the factors staff would consider in determining whether to suspend the sector ranges within the Fixed Income – Retirement Funds policy and the protection provided to the fund in times of impaired public market liquidity.

Mr. Ragan moved that the Public Markets Committee recommend the Board adopt the proposed revisions policies 2.10.200, 2.14.200, 2.20.100, and 2.25.100. Ms. Williams seconded, and the motion carried unanimously.

EDUCATIONAL SESSION – PUBLIC EQUITY OVERVIEW

Mr. Paroian introduced himself and noted that the first part of the education session would cover public equity basics in response to interest from voting members in reviewing some of the information provided during the new Board member orientation. The second part of the presentation would cover topics such as market efficiency, behavior research, and background information on the annual plan discussion.

[Mr. Longbrake was in attendance by teleconference at 11:18 a.m.]

Mr. Paroian reviewed public equity basics, noting that the WSIB invests in global equity, which includes U.S., developed non-U.S., and emerging markets, in order to create a well-balanced, diversified portfolio by accepting the risk and taking advantage of expected higher long-term returns of the equity markets. Various external equity investment management firms manage the WSIB's equity portfolios. The public equity team oversees the program structure, policy development and implementation, external investment manager selection, and monitoring.

[Mr. Longbrake was no longer in attendance at 11:26 a.m.]

He reviewed equity related terminology such as fundamental or quantitative; top-down versus bottom-up; value versus growth; active versus passive; commingled accounts versus separate accounts; and benchmark and tracking error. Mr. Paroian reviewed market capitalization and how a market cap weighted benchmark will more heavily weight a stock as its price is rising, resulting in a stock having its highest benchmark weighting at its peak, just before returns turn negative. There are other possible portfolio weighting benchmarks and Ms. Tucker will present her research on alternative benchmarks at the December Public Markets Committee meeting.

Mr. Paroian reviewed the responsibilities of the public equity team as well as the key WSIB investment beliefs for the Commingled Trust Fund (CTF) and additional fundamental beliefs. The CTF equity portfolio utilizes passive U.S. and non-U.S. equity managers and active global and emerging markets equity managers. This structure directly reflects the Board's investment beliefs for the CTF.

[Mr. Longbrake was in attendance at 11:51 a.m.]

Discussion ensued regarding the importance of liquidity in the equity portfolios.

[The Committee recessed for lunch at 11:56 a.m. and reconvened at 12:20 p.m.]

[Mr. Longbrake was no longer in attendance at 12:11 p.m.]

Mr. Paroian reviewed the steps undertaken during public equity investment manager searches and the typical criteria evaluated. He also reviewed the comprehensive monitoring of existing managers. Detailed discussion took place regarding the processes for manager searches and monitoring.

Mr. Paroian began the second portion of his presentation by discussing market efficiency and the difference between academic and practitioner viewpoints. He continued with a discussion on behavioral research, specifically the small sample size problem.

Mr. Paroian reviewed possible areas of focus for the public equity program in 2013, noting that manager monitoring and risk management are the top priorities. He reviewed potential investment manager searches for 2013 as well as potential research topics.

OTHER ITEMS

There was no further business to come before the Public Markets Committee and the meeting adjourned at 1:11 p.m.