

**WASHINGTON STATE INVESTMENT BOARD
Public Markets Committee Meeting Minutes
January 8, 2013**

The Public Markets Committee met in open public session at 1:01 p.m. on January 8, 2013, at the Washington State Investment Board (WSIB) office at 2100 Evergreen Park Drive Southwest, Olympia, Washington.

Members Present: Judi Owens, Chair
Bill Longbrake
Pat McElligott
Bob Nakahara
David Nierenberg
Mike Ragan
Natasha Williams

Others Present: Theresa Whitmarsh, Executive Director
Gary Bruebaker, Chief Investment Officer
Phil Paroian, Senior Investment Officer – Public Equity
Rhonda McNavish, Assistant Senior Investment Officer –
Public Equity
David Thatcher, Investment Officer – Public Equity
Fletcher Wilson, Investment Officer – Public Equity
Bill Kennett, Senior Investment Officer – Fixed Income
Allyson Tucker, Senior Investment Officer – Risk
Management and Asset Allocation
Kristi Bromley, Administrative Assistant – Investments

Steve Dietrich, Assistant Attorney General
Carole Washburn, Interim Director of Labor and Industries

[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.

ADOPTION OF MINUTES

Mr. McElligott moved to adopt the December 4, 2012, minutes. Mr. Ragan seconded, and the motion carried unanimously.

DISCUSSION – INTERNAL PASSIVE MANAGEMENT

Mr. Phil Paroian introduced himself and noted that staff conducted a comprehensive review of passive equity management as identified in the 2012 annual plan. The review was conducted from the viewpoint of what type of program would be best for the WSIB if we were starting the passive program from scratch with no constraints and the reviewed researched methodology and implementation for passive mandates. He noted that Ms. Tucker presented the results of the methodology research in December 2012 with her presentation on alternatives to capitalization weighted passive investing and his presentation would focus on implementation considering all organizational requirements. Research included onsite visits and telephone discussions with other public funds, as well as discussions with the WSIB's current U.S. passive equity manager, BlackRock.

[Ms. Washburn arrived at 1:05 p.m.]

Mr. Paroian noted the broad scope of issues considered relative to managing internal passive equity investments and briefly reviewed the summary findings for each. Areas reviewed included investment considerations; execution and trading; operational and human resource considerations; and policy, regulatory, and reporting requirements. He also reviewed the potential cost savings associated with managing equities internally, as well as the pros and cons of implementing internal equity management at the WSIB.

Further discussion ensued regarding cost savings, timing of implementing internal equity management, and implementation approaches. The Committee agreed that internal management would be considered further for possible implementation in the 2015-2017 biennium.

ANNUAL PLAN – 2013 PUBLIC EQUITY ANNUAL PLAN

Mr. Paroian noted that two new staff members recently joined the public equity team. Ms. McNavish and Mr. Wilson introduced themselves to the Committee and reviewed their backgrounds.

Mr. Thatcher reviewed some of the Board's investment beliefs for the Commingled Trust Fund (CTF) and additional equity-related investment beliefs. These included the mission of maximizing returns at a prudent level of risk; long-term time horizon; criteria for active management; and the importance of diversification, risk management, and global focus. Given the Board's 43 percent allocation to illiquid investments, liquidity is critical in the public equity markets. Transparency is also essential in order to understand the risks of the portfolio. Success is driven by maintaining a long-term perspective while developing an effective and efficient program with managers that will add value over the long term.

Mr. Paroian noted the importance of a global focus and reviewed information pertaining to economic exposures of global mandates; he also noted staff's belief that emerging markets will be increasingly important going forward.

Mr. Thatcher reviewed assets under management within public equity, the number of managers in the program, and the diverse client base. The public equity portfolio continues to grow in assets under management and complexity. It is important that staff maintain their focus and concentrate efforts on areas most beneficial to members. Mr. Thatcher reviewed recent efficiencies and improvements in the manager procurement process. There is room for continued improvement, however, and WSIB staff will be working with the Department of Enterprise Services on a pilot project to develop a risk-based procurement process.

Mr. Paroian reviewed public equity's 2012 initiatives and accomplishments. Highlights of accomplishments included completing research on alternative passive investing strategies and the pros and cons of internally managed passive, conducting the socially responsible investing manager search, and hiring two new staff members.

Mr. Thatcher reviewed the effect of the changes since 2008 on the public equity mandates and investment strategies employed. Mr. Paroian reviewed the current profile of the public equity program within the CTF in terms of risk and capitalization, as well as sector and country weightings.

Mr. Paroian highlighted the Style Research analytical tool that staff uses to gain further insight into the structure of the portfolio. He reviewed how to interpret the Style Research charts and reviewed the structure of the portfolio in September 2012 compared to a year ago. Mr. Paroian reviewed the largest active country weights, sector weights, and capitalization weights in the CTF equity program. He reviewed actions staff may undertake related to the structure of the portfolio.

Mr. Paroian reviewed the profile of the defined contribution equity assets under management and areas of focus for that area.

[The Committee recessed at 2:33 p.m. and reconvened at 2:49 p.m.]

Mr. Paroian reviewed the four themes of potential initiatives for public equity during 2013. Manager monitoring and risk management remain the highest priority. Additional themes were enhancements to existing programs, contract rebids or renewals, and research and new initiatives. He reviewed the subcomponents of each theme including the factors in favor of each, as well as potential challenges and required resources. Mr. Paroian evaluated each potential initiative by the required resources versus potential impact and presented his recommendation of priorities for 2013.

Discussion ensued regarding knowledge gained from monitoring activities, as well as potential enhancements and improvements to the public equity program. The Committee agreed with Mr. Paroian's prioritization of the themes and subcomponents.

[Mr. Nakahara left the meeting at 3:45 p.m.]

Mr. Ragan moved the Public Markets Committee recommend the Board adopt the 2013 public equity annual plan. Ms. Williams 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 3:50 p.m.