WASHINGTON STATE INVESTMENT BOARD
Public Markets Committee Meeting Minutes
February 5, 2013

The Public Markets Committee met in open public session at 1:00 p.m. in the boardroom at the Washington State Investment Board in Olympia, Washington.

Members Present:	Judi Owens, Chair Bill Longbrake Pat McElligott Bob Nakahara Mike Ragan Natasha Williams
Members Absent:	David Nierenberg Joel Sacks
Other Members Present:	George Masten Treasurer McIntire
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 William Apfel, Walden Asset Management Mark Cushing, Walden Asset Management Heidi Soumerai, Walden Asset Management

[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

Ms. Williams moved to adopt the January 8, 2013, minutes. Mr. McElligott seconded, and the motion carried unanimously.

Manager Search – Socially Responsible Investing Manager Search

Mr. Paroian introduced himself and explained that the existing contract with Walden Asset Management (Walden) expires June 30, 2013. Walden has managed the social responsible investment (SRI) option in the defined contribution plans since July 2003. Staff initiated a manager search to evaluate the universe of socially responsible investment (SRI) managers. WSIB staff worked very closely with the Department of Retirement Services throughout the search process and is supportive of staff's recommendation that the incumbent manager, Walden Asset Management, be rehired.

[Mr. Ragan arrived at 1:03 p.m.]

Mr. Cushing introduced himself, Ms. Soumerai, and Mr. Apfel. He provided an overview of Walden, including ownership structure, assets under management, experience, and returns. He noted that Walden is a leader in integrating environmental, social, and governance (ESG) research into the investment process. He reviewed Walden's investment philosophy, including their beliefs in tactical asset allocation, systematic mispricing of higher quality companies, role of diversification in managing portfolio risk, that ESG objectives need not compromise investment performance, and effective shareholder engagement strengthens sustainable business practices and performance. He highlighted the investment management process for the balanced SRI portfolio, which starts with asset allocation and includes active equity and fixed income management to develop an optimal risk/return portfolio.

[Treasurer McIntire arrived at 1:12 p.m.]

Mr. Apfel noted the economic and market scenario forecast process Walden undergoes to determine the appropriate diversification of the portfolio given various possible outcomes and reviewed the historical asset allocation of the SRI Balanced Fund. He detailed the equity investment process, which incorporates quality screenings, fundamental analysis, and ESG guidelines to construct the portfolio, and reviewed the current equity sector allocation as well as the large cap equity portfolio characteristics. Mr. Apfel noted that fixed income management was fully integrated into the total portfolio construction process with risk management being the primary role for the fixed income in the portfolio.

Ms. Soumerai noted that Walden has a five-member team dedicated to ESG research. The team works alongside the financial analysts and is fully integrated into Walden's investment and engagement processes. She reviewed examples of how ESG analysis affects portfolio construction and company selection. She also noted areas of engagement focused on issues pertaining to community impact, corporate

governance, environmental impact, and workplace conditions. She noted that the ESG team tends to have more direct interaction with companies than traditional financial analysts do and provided examples of companies Walden has engaged with to encourage better policies, more sustainable business processes, and increased transparency.

Mr. Cushing noted the WSIB's request for a more globally integrated SRI portfolio and Walden's proposed approach to meet the objective. He reviewed the proposed allocation of the equity portfolio with 20 percent of the portfolio comprised of non-U.S. companies with 55 percent of the portfolio's sales exposure coming from regions outside the U.S. He noted that Walden's focus on quality applies well to the wider opportunity set. Mr. Cushing reviewed the portfolio's investment performance and their investment outlook based on government policy, economy, and investment position.

Discussion ensued regarding Walden's ESG engagement with companies and any effect from global expansion as well as Walden's monitoring of portfolio companies, sector allocation, portfolio diversification, and focus on quality.

> **Mr. Ragan moved the Public Markets Committee recommend the Board retain Walden Asset Management as the defined contribution socially responsible investment manager, subject to continued due diligence and final negotiation of terms and conditions. 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 2:15 p.m.