

**WASHINGTON STATE INVESTMENT BOARD  
Public Markets Committee Meeting Minutes  
June 11, 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  
Kelly Fox  
Bill Longbrake  
Bob Nakahara  
David Nierenberg (teleconference)  
Joel Sacks  
Natasha Williams

Members Absent: Mike Ragan

Other Members Present: George Masten

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

[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 February 5, 2013, minutes. Chair Owens seconded, and the motion carried unanimously.**

## **POLICY REVISION – DEVELOPMENTAL DISABILITIES ENDOWMENT TRUST FUND POLICY 2.35.400**

Mr. Thatcher introduced himself and noted that Vanguard manages the private assets within the Developmental Disabilities Endowment Fund (DDEF). In the fall of 2012, Vanguard reviewed the benchmarks for many of their funds. As a result of this review, the benchmark for the Balanced Fund in which the DDEF private funds are invested was changed from the MSCI U.S. Broad Market Index to the CRSP U.S. Total Market Index. As an investor in Vanguard's Balanced Fund, the WSIB had no input into the change and can either accept the change or exit the fund. At this time, staff has no concerns with the benchmark change and finds the Vanguard product acceptable and performing as expected. The change in the benchmark necessitates a revision to the DDEF Policy 2.35.400.

**Ms. Williams moved the Public Markets Committee recommend the Board approve the proposed revisions to the Developmental Disabilities Endowment Trust Fund Policy 2.35.400. Mr. Sacks seconded, and the motion carried unanimously.**

## **PUBLIC EQUITY EMERGING MARKETS PROGRAM – PASSIVE EMERGING MARKETS**

Mr. Wilson introduced himself and noted that his presentation would cover the benefits of a passive emerging markets equity index fund within the Commingled Trust Fund (CTF). He referred to the Board's Public Markets Equity – Retirement Funds Policy 2.10.100, which states that the public equity program seeks to "achieve the highest return possible from active management consistent with prudent risk management" with passive management being the default. He noted that passive index portfolios provide many benefits to meeting the investment objectives of the WSIB, with one of the most important benefits being the ability to maintain the strategic allocation within public equity. While the CTF includes passive equity portfolios for U.S. and non-U.S. equities, a passive option currently does not exist for emerging market equities. The passive index for U.S. equities is the MSCI U.S. Investable Markets Index (IMI) and the non-U.S. developed passive index is the MSCI World ex. U.S. IMI. Public equity staff sees the MSCI Emerging Markets IMI as an appropriate passive investment option for the CTF.

Mr. Wilson reviewed the reasons for incorporating a passive emerging markets index fund within the CTF at this time. Emerging markets are less inefficient than in the past and invested assets, analyst coverage, and the number of investment managers have significantly increased. As a result, tracking error has dramatically decreased allowing a passive index fund to better track the performance of a broad emerging markets index. In addition, successful active managers either have closed their funds or have limited capacity for additional assets. He noted that incorporating a passive index account for emerging markets provides a low cost way for the public equity program to maintain the appropriate allocation within the overall equity program's benchmark, the MSCI All Country World Index IMI, given capacity constraints among the WSIB's current emerging markets managers. A passive index fund will provide a diversified portfolio of emerging markets stocks as well as a high level of liquidity. Mr. Wilson reviewed the drawbacks of adding a passive emerging

markets fund, notably that performance is expected to slightly trail the index due to tracking error and fees, as well as the opportunities forgone by not actively managing the assets. He stated that active management would still dominate the allocation to emerging markets equities, as the allocation to a passive index fund would be a small percentage of the total assets currently invested in emerging markets.

Mr. Wilson reviewed the planned implementation for the strategy, which would involve utilizing the WSIB's current agreement with one of the two WSIB passive equity managers, BlackRock or State Street Global Advisors. Staff expects to fund the strategy in the second half of the year.

Discussion ensued regarding the countries included in the MSCI Emerging Markets IMI benchmark and the Board's existing use of passive emerging markets equity strategies in the defined contribution portfolios.

### **EXECUTIVE SESSION – INVESTMENT RECOMMENDATIONS**

Ms. Owens announced the Public Markets Committee would go into executive session to discuss financial and commercial information relating to an investment since public knowledge regarding the discussion would result in loss to the funds managed by the WSIB or would result in private loss to the providers of the information. She stated the executive session was expected to last approximately 20 minutes, at which time the Public Markets Committee would reconvene in open session.

**[The Committee went into executive session at 1:16 p.m. and reconvened in open session at 1:55 p.m.]**

### **Public Equity Emerging Markets Investment Recommendation**

**Ms. Williams moved the Public Markets Committee recommend the Board take the specific action discussed in executive session regarding the public equity emerging markets program. Mr. Sacks seconded, and the motion carried unanimously.**

### **Defined Contribution Retirement Strategy Funds Investment Recommendations**

**Mr. Sacks moved the Public Markets Committee recommend the Board take the specific actions discussed in executive session regarding the Defined Contribution Retirement Strategy Funds. Mr. Fox seconded, and the motion carried unanimously.**

### **OTHER ITEMS**

Chair Owens expressed her gratitude for the experience of serving on the Board.

There was no further business to come before the Public Markets Committee and the meeting adjourned at 1:57 p.m.