

**WASHINGTON STATE INVESTMENT BOARD
Public Markets Committee Meeting Minutes
September 1, 2015**

The Public Markets Committee met in open public session at 1:04 p.m. in the boardroom at the Washington State Investment Board in Olympia, Washington.

Members Present: Joel Sacks, Chair
Marcie Frost
Arlista Holman
Stephen Miller
Representative Timm Ormsby
Bill Longbrake
David Nierenberg (teleconference)

Members Absent: Bob Nakahara

Other Members Present: George Masten

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
Brian Fischer, Assistant Senior Investment Officer – Risk
Management and Asset Allocation
Kristi Bromley, Assistant Investment Officer – Risk
Management and Asset Allocation
Stacy Conway, Administrative Assistant – Investments

Mary Lobdell, Assistant Attorney General

[Names of other individuals attending the meeting are not included in the minutes but are listed in the permanent record.]

Chair Sacks called the meeting to order and took roll call. He cautioned that attendance by six voting Board members would constitute a quorum, and only the Committee members could actively participate in the meeting.

ADOPTION OF MINUTES

**Ms. Frost moved to adopt the February 3, 2015, minutes.
Ms. Holman seconded, and the motion carried unanimously.**

TECHNICAL POLICY REVISIONS

Mr. Bruebaker provided background on the Public Markets Committee Charter 1.00.150 and said the proposed changes were minor, sharing the specific changes proposed.

Mr. Kennett said the three policies he would be discussing were the Commercial Paper Investment Policy for State and Local Governments 2.05.500, Fixed Income – Retirement Funds Policy 2.10.200, and Bond Market Fund Policy 2.14.200. He explained the Commercial Paper Investment Policy for State and Local Governments proposed revision would allow additional flexibility for managers without sacrificing safety. For the Retirement Funds – Fixed Income Policy, the two notable changes were that the policy now: 1) specifically addressed the role of fixed income in providing liquidity to the retirement funds in total, and 2) clarified staff reporting. For the Bond Market Fund, the highlighted change was the clarification of staff reporting.

Ms. Bromley provided background, listing the included funds and a description of each, for the Permanent Funds Policy 2.25.100 and Addendum. She provided an overview of the proposed revisions and said they were made to provide consistency with other policies, clarify constitutional and statutory language, and make other housekeeping changes. Chair Sacks asked if the proposed revisions were shared with interested groups. Ms. Bromley responded in the negative and said that the changes were all technical and not of a substantive nature.

Ms. Frost moved that the Public Markets Committee recommend the Board approve the proposed revisions to policies 1.00.150, 2.05.500, 2.10.200, 2.14.200, and 2.25.100. Mr. Miller seconded, and the motion carried unanimously.

PROPOSED 2016 MEETING SCHEDULE

Mr. Bruebaker shared the proposed 2016 Committee meeting dates, and said that in September the meeting would move to the second Tuesday of the month due to the Labor Day holiday the first week. Ms. Holman asked for clarification regarding the start time of the September 13, 2016, meeting, which was moved to 1:30 p.m. to accommodate Committee member conflicts.

Mr. Miller moved that the Public Markets Committee adopt the proposed 2016 meeting dates as presented. Ms. Holman seconded, and the motion carried unanimously.

EDUCATION SESSION

Impact of Macroeconomic Trends on Long Term Rates of Return on Investments

Chair Sacks introduced Mr. Longbrake and explained the purpose of education sessions, and Ms. Whitmarsh shared Mr. Longbrake's bio.

Mr. Longbrake said he was not going to talk about the stock market swing but rather he was going to look 10 to 15 years ahead, consistent with the WSIB's focus, by looking at three of its investment beliefs: mission, risk, and asset allocation strategy. He discussed historical growth and inflation environments and the correlation of these environments with rates of return and asset allocation; the possibility of the current low-growth and low-inflation environment becoming the new normal; the analytical framework and components in arriving at rates of return; potential real growth and inflation; labor force growth and participation rates; productivity; gross domestic product (GDP) growth; employment growth; factors influencing inflation and current inflation indicators; prospects for rates of return; and historical and forecasted interest rates.

[Representative Ormsby arrived at 1:52 p.m.]

Discussion ensued around historical events and economic conditions in recent decades and reasons for low inflation during the tech and real estate boom years, impact of state investment, appropriateness of the WSIB capital market assumptions, the amount of WSIB investment outside the U.S., and effects of the integration of global markets on investments.

[Ms. Frost left the meeting at 2:37 p.m.]

Ms. Lobdell announced that Ms. Frost had left the meeting, leaving only five voting Board members; therefore, a quorum of the Board no longer exists and non-Committee members are able to participate.

Discussion ensued around the many economic changes experienced over several decades, investment strategies that may be employed to sustain the WSIB's level of historical performance, influence and impact of international economic conditions on U.S. investments, increased risk due to the integration of markets on a global basis, and the importance of maintaining a long-term outlook.

Chair Sacks said the ensuing conversation was beneficial and what differentiates the WSIB is the way the legislature has structured the Board with lay members and non-voting members with expertise. He said this conversation would be something to refer to when making future decisions on asset allocation.

OTHER ITEMS

There was no further business to come before the Committee, and the meeting adjourned at 2:48 p.m.