



Tuesday, March 1, 2022
Public Markets Committee Meeting

1. Call to Order (1:00p)

2. Adoption of Minutes (1:00 - 1:05)

3. Cash Overlay Manager Recommendation (1:05 - 1:50)

4. Socially Responsible Investing Update (1:50 - 2:20)

5. Active Global Equity Manager Search Update (2:20 - 2:40)

6. Adjourn (2:40)

**2022 WASHINGTON STATE INVESTMENT BOARD
Public Markets Committee Meeting Minutes
March 1, 2022**

The Washington State Investment Board met in open session via Webex video conferencing and dial-in access to the public.

Members Present: Yona Makowski, Chair
Sara Ketelsen
Bill Longbrake
Greg Markley
Treasurer Mike Pellicciotti
Mary Pugh
George Zinn

Members Absent: Representative Timm Ormsby

Other Members Present: Tracy Guerin
Liz Lewis

Others Present: Allyson Tucker, Chief Executive Officer
Chris Hanak, Chief Investment Officer
Phil Paroian, Senior Investment Officer – Public Equity
Aileen Liu, Assistant Senior Investment Officer – RMAA
Fletcher Wilson, Assistant Senior Investment Officer – Public Equity
Chris Biggs, Investment Officer – Public Equity
Ben Lachmann, Investment Officer – Public Equity
Sherrie Trecker, Sustainability Officer
Marianne Wieland, Administrative Assistant

Tor Jernudd, Assistant Attorney General

CALL TO ORDER

Chair Makowski called the meeting to order at 1:00 p.m. and took roll call; all Committee members listed as present were able to fully participate in the meeting.

ADOPTION OF MINUTES

**Chair Makowski moved to adopt the March 2, 2021, minutes.
Mr. Markley seconded, and the motion carried unanimously.**

[Ms. Lewis joined the meeting at 1:05 pm]

CASH OVERLAY MANAGER RECOMMENDATION

Ms. Liu provided introductory remarks, discussed the role of the cash overlay program, and noted that the Washington State Investment Board's (WSIB's) exposure as of December 31, 2021, was \$3.5 billion. After giving an overview of the search and selection processes, Ms. Liu stated that staff recommends Russell Investment Group, LLC. (Russell) based on the outcome of the due diligence performed on asset class replication, trading, and operational considerations, along with their organization,

people, process, implementation, and risk and reporting ability. A strong focus for staff was Russell's ability to replicate overlay equity exposure; their global, in-house, 24-hour trading desk with the ability to trade country and regional trading baskets; and their research consulting expertise. Staff believes Russell is a manager who has the trading capability and flexibility to provide quality execution over the life of the contract that can implement the program as it stands today. In addition, Russell demonstrates the level of thoroughness and flexibility, backed by reliable internal trading capabilities, to implement and evolve the cash overlay program as needed over time.

[Ms. Guerin joined the meeting at 1:08 pm]

Messrs. Miller, Fletcher, and Causey and Meses. Shokley and Cavallari from Russell introduced themselves. Mr. Miller addressed the business of implementation services, providing context around how overlay factors into Russell Investment Implementation Services (RIIS). He explained that RIIS is a critical component of Russell and a large part of their U.S. institutional business. He discussed how the tools they originally developed to increase performance across their own investment strategies became a third-party business fully integrated into the firm and critical to how they do business. They have 35 years of experience in the overlay business, which is a key aspect of the deliverables they offer to their overlay partners.

Mr. Fletcher discussed his role and history with Russell and gave an overview of overlay services and the team. He discussed the team's experiences with derivatives and their research expertise, and he detailed the team members that would be dedicated to the WSIB.

Mr. Causey described Russell's cash overlay service model, reiterating the firm's 24/7 service and explaining that an overlay provides risk reduction, cost reduction, return enhancement, and simplification.

Ms. Shockley presented a high-level overview of their daily process.

Ms. Cavallari discussed derivative trading, the derivative trading team, and the global aspect of the team.

The Russell team concluded with a short summary of their capabilities, experience, and desire to work with the WSIB.

There were no additional questions or discussions.

Chair Makowski moved that the Public Markets Committee recommend the Board select Russell Investment Group, LLC. for the WSIB's Commingled Trust Fund cash overlay program mandate, subject to continuing due diligence and final negotiation of terms and conditions. Ms. Ketelsen seconded, and the motion carried unanimously.

SOCIALLY RESPONSIBLE INVESTING SEARCH UPDATE

Mr. Lachmann explained that this presentation was a follow-up to the update provided at the November 2021 Board meeting regarding changes staff intends to make to the search parameters for the Socially Responsible Investing (SRI) option prior to the launch of a competitive rebid this year. These changes are being made to address what staff believes is an evolution in participant preferences and a more dynamic

opportunity set of SRI strategies. Mr. Lachmann then recapped the current SRI option – an actively managed and globally diversified portfolio of stocks and bonds, which currently has approximately \$400 million in assets under management.

Ms. Trecker explained that the current manager’s contract is due to expire in 2023, and staff will initiate a search in the second half of 2022. She said the sustainable investing industry has grown exponentially, and there is now a much larger opportunity set. By expanding the search criteria, staff may be able to identify a product better suited to our members’ needs. She also noted that “socially responsible” can mean different things to different people. She advised that staff understands it will not be possible to meet everyone’s preferences. She discussed fiduciary duty as the bedrock of all conversations not to be compromised.

Mr. Lachmann advised that staff intends to broaden the search parameters of the SRI option in three ways: opening the search process to allow equity-only strategies to compete alongside balanced products; opening the universe to environmental thematic strategies that target products or services that mitigate or adapt to effects of climate change; and removing specific exclusionary screens from the minimum requirements in the search criteria so that strategies utilizing exclusionary screens, and those that do not, may both be considered in the search. He explained the rationale and the benefits and concerns of each broadened parameter.

Ms. Trecker discussed some of the options that were considered that staff is not recommending and explained the rationale for not moving forward with these options, citing potential benefits and concerns.

Mr. Lachmann outlined the next steps, which are to launch a search later in 2022, present a final recommendation in the first half of 2023, and implement the strategy once approved by the Board.

There were no additional questions or discussions.

ACTIVE GLOBAL EQUITY MANAGER SEARCH UPDATE

Mr. Paroian provided an update on the active global equity manager search within the Commingled Trust Fund (CTF). He gave a brief historical timeline of the current search, which was launched in 2019. He explained that staff was able to complete the majority of the initial due diligence steps, noting that when the COVID-19 pandemic began, staff adjusted its methods, including the use of virtual meetings. Staff would have conducted in-person, on-site visits for each of the remaining candidates; however, this was not possible due to travel restrictions put in place due to the pandemic. Instead, staff presented recommendations at the September 2021 Public Markets Committee meeting for the managers they had recently visited on-site and/or knew well. Further due diligence on the remaining candidates would be deferred until such time as travel resumed and on-site due diligence could be completed.

Mr. Paroian noted that, while the preference is to conduct on-site final due diligence, he believes that the opportunity cost of further delays is significant, and staff has tools to finish due diligence in a virtual format. He outlined the updated timeline, including staff completion of due diligence virtually in 2022, with manager recommendations to be presented at the September Public Markets Committee meeting. Staff will conduct on-site visits as soon as feasibly possible following the hiring of any additional

managers, and the goal is to complete implementation of revisions to the CTF active global equity portfolio by the end of 2022.

There were no additional questions or discussions.

OTHER ITEMS

There was no further business to come before the Public Markets Committee, and the meeting adjourned at 2:27 p.m.