

**WASHINGTON STATE INVESTMENT BOARD (WSIB)
LABOR AND INDUSTRIES INSURANCE FUNDS EQUITY MANAGEMENT
SEARCH DOCUMENT**

Search Objective:

The WSIB is seeking a firm to manage a passive global equity portfolio on behalf of the Labor and Industries insurance funds.

Labor and Industries (L&I) public equities, totaling approximately \$2.1 billion as of April 30, 2017, are currently passively invested in a broad U.S. equity fund (60 percent), benchmarked to the MSCI US IMI, and a world ex-U.S. equity fund (40 percent), benchmarked to the MSCI ACWI ex-US IMI. Those two accounts will be combined into a single global equity account benchmarked to the MSCI ACWI IMI.

It is the desire of the WSIB to find a manager in which the WSIB has high conviction and strong capabilities for running passive global index strategies.

Potential candidates should review the minimum and desirable qualifications set forth. If an interested candidate meets the minimum qualifications, they may participate in this search process by following the steps below by June 12, 2017.

1. All candidates wishing to be considered in the search are requested to contact Kyle Fekete of Callan Associates Inc, at 415-291-4133 or fekete@callan.com to indicate interest. In addition, all candidates are required to submit a proposed fee schedule to Callan. If a potential candidate's relevant product(s) is/are currently in Callan's database, the candidate must ensure that all current and historical information is accurate for both the relevant product and organization. Information should be submitted in the manner the consultant requires and should be stated in the manner the offering firm desires it to be seen and evaluated.
2. If a potential candidate's relevant product(s) or organizational information is not yet in Callan's database, please contact Kyle Fekete of Callan Associates Inc., at 415-291-4133 or fekete@callan.com to obtain the necessary questionnaire for the submission of information into the consultant's database. Information should be submitted in the manner the consultant requires and should be stated in the manner the offering firm desires it to be seen and evaluated.
3. In addition, candidates will need to ensure that the eVestment database is up to date with complete data as of March 31, 2017, and updated each quarter subsequently.

eVestment Alliance, LLC database, contact Paul Loudon, at 678-569-1465,
paul@evestment.com.

Relevant, current and historical data must be in the databases no later than June 12, 2017, with quarterly data updated throughout the search.

Background

The WSIB is one of the largest institutional investors in the United States. The WSIB manages several pools of assets in addition to the state's pension funds, including three insurance funds on behalf of L&I. Those three funds and their assets as of April 30, 2017, are the following:

- Washington State Accident Fund (\$6.1 billion total assets, \$655 million equities)
- Washington State Medical Aid Fund (\$5.7 billion total assets, \$887 million equities)
- Washington State Accident Reserve Fund (\$4.6 billion total assets, \$511 million equities)

It is for these three L&I insurance funds that the WSIB is seeking a firm to manage a passive global equity portfolio.

The L&I insurance funds' investment strategy is largely driven by:

- Objective of stable and low premium rates
- Insurance accounting rules
- Capital adequacy and risk tolerance
- Structure of the benefit liabilities
- Results of insurance operations

In accordance with WSIB investment policy, the L&I insurance funds' investments are to be managed to limit fluctuations in the industrial insurance premiums, and, subject to this purpose, achieve the highest return possible at a prudent level of risk. In keeping with that policy, the vast majority of the L&I portfolios (75-85 percent) are targeted to be held in fixed income securities, managed internally by the WSIB. Equities are targeted to compose a much smaller portion of the portfolios (10-20 percent), with the balance in real estate and other securities.

Labor and Industries' public equities, totaling approximately \$2.1 billion as of April 30, 2017, are currently invested in a broad U.S. equity fund (60 percent), benchmarked to the MSCI US IMI, and a non U.S. equity fund (40 percent), benchmarked to the MSCI ACWI ex-US IMI. In February 2017, the Board governing the WSIB approved transitioning these assets to a single global equity fund. This is consistent with the WSIB's global approach in other programs, and it removes the need for periodic rebalancing. The WSIB staff anticipates the new global equity portfolio will be benchmarked to the MSCI ACWI IMI.

Due to certain insurance accounting rules to which the L&I funds are subject, WSIB staff believe that a commingled vehicle could be the best option for the L&I global equity portfolio. However, staff is open to the possibility of a separate account structure if it can be implemented in a way that does not unduly burden the operations and accounting staff of the WSIB and L&I.

Importantly, if the WSIB chooses to use a commingled fund vehicle, the selected manager must agree to provide the WSIB with the ability to exercise proxy voting rights and responsibilities for U.S. securities, pursuant to the WSIB's guidelines as to the share of the securities invested in by a particular Collective/Commingled Funds as is proportionate to the size of the WSIB's investment in the particular Fund.

Key Services Required

Full services and required reporting will be defined through contract negotiations, but candidates should be expected to provide the following services:

- Provide a passive global equity product capable of meeting the needs of the L&I insurance funds. **The returns of the index product should match, or closely track, the specified index return.**
- Ability to create a commingled fund with the strike price either net or gross of manager fees.
- Ability to provide, on an ongoing basis, the WSIB's underlying exposure to any commingled fund's actual security holdings.
- Research, analysis, advice, or assistance related to investment topics and special projects as reasonably requested by the WSIB. Potential analysis may include but is not limited to tracking error and the cost/benefit of various avenues to gaining market exposures.
- Assistance as needed to efficiently transition assets within equity index mandates or other asset classes.
- For any commingled strategy that would be used, have the ability to manage securities lending utilizing the cash collateral guidelines developed by the WSIB.
- For all U.S. securities held in the portfolio, the WSIB must be able to exercise proxy voting rights and responsibilities, pursuant to the WSIB's guidelines as to the share of the securities invested in by a particular Collective/Commingled Funds as is proportionate to the size of the WSIB's investment in the particular Fund.
- Participate in regular communications with WSIB staff.

It is anticipated that the selected manager will be utilized in the management of the L&I insurance funds. The WSIB does not anticipate using the chosen manager in the Retirement Commingled Trust Fund. Upon mutual agreement, the chosen manager may be considered for use in other investment programs in the future, including both defined benefit or defined contribution plans, and/or both qualified retirement programs and non-qualified programs. However, the ability to serve other programs is not a requirement of the search.

Further information on the WSIB and its investments can be found on this website:

<http://www.sib.wa.gov/>

Further information on the Public Equity program of WSIB can be found here:

http://www.sib.wa.gov/financial/pdfs/pue_opp.pdf

Selection Criteria/Minimum Qualifications

As of April 30, 2017, candidate firms must satisfy the minimum requirements outlined below in order to be considered for selection to this mandate:

- A. Must currently provide a passive global equity product.
- B. If proposing a commingled account, must be willing and able to offer daily liquidity (no lock-ups of any kind will be considered).
- C. Must be willing to act as a fiduciary when performing these services and certify in writing to that fact.
- E. Must be a U.S. Securities and Exchange Commission (SEC) registered investment advisor, an advisor exempt from registration (Form ADV, Parts 1 and 2, or disclosure of the exemption must be submitted), or registered with the appropriate foreign regulatory body.
- F. Must be GIPS Compliant for the subject investment product being offered.
- G. Key professionals and/or the organization must not have, nor could they potentially have, a material conflict with the WSIB or its consultants.
- H. Must be willing to provide WSIB staff transparency into all material aspects of the investment process.
- I. Must have adequate fiduciary insurance coverage. At a minimum, each Candidate must provide proof of Errors and Omissions/Professional Liability Insurance.
- J. Must conduct an annual SSAE16 audit or have in place an appropriate operational control structure that will be evaluated by WSIB and judged to be a reasonable alternative.
- K. If the WSIB chooses to use a commingled fund vehicle, must agree to provide or demonstrate the ability to provide, at a minimum, a monthly report (electronic delivery and daily reporting are preferable) of the WSIB's underlying exposure to the commingled fund's actual security holdings.
- L. For all insurance mandates, must be able to assist the WSIB and stakeholders with insurance related reporting or requests.
- M. If a commingled fund vehicle, must provide ability to exit/redeem from collateral pools and index funds expeditiously to meet daily cash liquidity and asset allocation rebalancing requirements.
- N. If a commingled vehicle, for all U.S. securities held in the portfolio, the WSIB must be able to exercise proxy voting rights and responsibilities, pursuant to the WSIB's guidelines as to the share of the securities invested in by a particular Collective/Commingled Funds as is proportionate to the size of the WSIB's investment in the particular Fund.
- O. Staff does not anticipate doing any currency hedging within this mandate.

Desirable Qualifications

As of April 30, 2017, the following characteristics are desirable:

1. Have a total of \$20 billion or more in equity indexed assets under management for institutional clients, and have a total of \$10 billion or more of equity indexed assets under management for U.S tax-exempt institutional clients.
2. Provide components underlying the specified index (e.g., MSCI World, MSCI US) which segment the market by capitalization, style and/or industry.
3. Mandate should largely utilize nominal securities with limited use of derivatives and other instruments.
4. Have at least five years of experience managing the equity index product/products submitted.
5. Demonstrated experience with large public funds such as the WSIB.
6. Demonstrated ability to consistently produce minimal tracking error relative to the benchmark for the product(s) submitted.
7. Have the ability to assist in the transition from two separate portfolios, a U.S. and a non-U.S. portfolio, both currently in commingled vehicles, to a single global equity portfolio.

Undesirable Qualifications

As of April 30, 2017, the following characteristics are undesirable:

- A. A history (especially a recent year) of significant client or investment professional turnover.
- B. Organizational instability, including, but not limited to, any financial distress.
- C. Any evidence of legal or regulatory issues.

Contract

If the selected manager has an existing contract in place with the WSIB, the terms, conditions and approach to the contract shall be based on the existing contract. Otherwise, the terms, conditions, and approach to the contract shall be based on the contract that will be provided during due diligence to finalist candidates.

Candidates for this mandate will be expected to perform duties under a contract with the care, skill, prudence, and diligence under the circumstances then prevailing that an ordinary prudent investor, acting in like capacity and familiar with such matters, would use in the performance of similar services, all in accordance with the applicable federal and state laws as well as WSIB policies, guidelines, and procedures. The candidates shall not: (a) deal with WSIB assets in candidate's own interests or for its own account, or the account of its principals or affiliates; (b) act in any transaction involving WSIB assets on behalf of a party, or represent a party, whose interests are known to candidate to be adverse to the interest of the WSIB; (c) take any action or render any services when candidate's independence of judgment on behalf of the WSIB is or could reasonably be affected; or (d) receive any consideration for its own account, or for the account of any of its principals or affiliates, from any third party that candidate knows or should know is being offered or

given with the intention to influence the advice or services required or rendered under an Agreement with the WSIB.

Search Modification

The WSIB reserves the right to change the schedule or modify any part of the search by issuance of an addendum which will be posted to the WSIB website. Candidates are advised to check the site regularly prior to the due dates.

Description of Evaluation Process

Any and all information that is gathered from any source, including, but not limited to, electronic submittals; consultant candidate material and subsequently requested written materials; site visits; in-person, telephone, and/or video interviews; oral presentations; and any other relevant material will be utilized in selecting the successful candidate(s).

Material will be evaluated by WSIB staff and, eventually, the WSIB Board of Trustees. During the evaluation process, WSIB reserves the right to request additional information or clarification from candidates. At the discretion of the WSIB, either telephonic/video, in-person, or on-site interviews may be requested of candidates. The candidate(s) selected shall be required to make a presentation to the WSIB Public Markets Committee.

Further, the WSIB reserves the right, at its sole discretion, to reject, without penalty, any and all candidates. The final selection, if any, will be the candidate which in the opinion of the WSIB, best meets the requirements and is in the best interest of the WSIB, the state of Washington, and the fund stakeholders.

Through the selection process, the WSIB reserves, at its sole discretion, the right to select the candidate(s) that is the best fit in awarding the contract. The WSIB reserves the right: (i) not to select any candidate; (ii) to select any particular product for further consideration; (iii) to accept a candidate other than the lowest cost provider; (iv) to remove a candidate from consideration at any time for criteria that is judged not in the best interest of the WSIB; or (v) to reject any and all candidates if such action is considered by WSIB in its sole discretion to be in the best interests of WSIB.

All material submitted in response to this competitive procurement shall become the property of the WSIB. Such material is subject to public disclosure requests pursuant to Washington's Public Records Act, found in Chapter 42.56 Revised Code of Washington, as well as pursuant to rules promulgated by the WSIB, in Chapter 287-02 Washington Administrative Code and cases decided by Washington courts. The WSIB's public records policy may be viewed at:

http://www.sib.wa.gov/information/pdfs/policies/2_00_250.pdf

Eligibility to Compete

Any firm(s) that, either as a parent company, subsidiary, or affiliate, is currently performing consulting services for the WSIB may **not** compete in this procurement. The firm(s), or any subsidiary, affiliate, or parent company thereof, selected as a result of this procurement may **not** compete, during the term of the resulting contract and any extensions thereto, in any subsequent WSIB procurement, the main purpose of which is to hire a firm or firms for consulting purposes.

WSIB Board Contact

The Search Coordinator is the sole point of contact for this procurement. Throughout the duration of this search, all communications are to be directed, in writing, to the contact listed below.

WASHINGTON STATE INVESTMENT BOARD
2100 EVERGREEN PARK SW, P.O. BOX 40916
OLYMPIA, WA 98504-0916
ATTN.: RUTH QI, SEARCH COORDINATOR
TELEPHONE: (360) 956-4749
FAX: (360) 956-4775
E-MAIL: rqi@sib.wa.gov

Contact by candidate's staff or by anyone on behalf of the candidate with WSIB staff, Board members, or consultant regarding this search after issuance of this search document and not previously authorized by the Search Coordinator, will disqualify the candidate. However, contact with the consultant is expressly authorized to coordinate the delivery of data into the database and to facilitate review and discussion with the consultant as they gather information.