



**Tuesday, December 5, 2023
Public Markets Committee**

1:00 P.M.

Virtual Meeting

The link to view the meeting virtually can be found at www.sib.wa.gov/meetings.html

OR

Members of the public may view the virtual meeting in person at the Washington State Investment Board Olympia Office located at 2100 Evergreen Park Drive SW, Olympia, WA 98502

1. Call to Order/Roll Call (1:00p)

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

A. Adoption of the September 5, 2023, meeting minutes

3. Fixed Income Education Session (1:05-1:45)

A. Fixed Income Peer Review

4. Public Equity Education Session (1:45-2:45)

A. Basics and Modularity of Passive Investments

5. Other Items (2:45-2:50)

6. Adjourn (2:50p)

**2023 WASHINGTON STATE INVESTMENT BOARD
Public Markets Committee Meeting Minutes
December 5, 2023**

The Public Markets Committee met in open public session via Microsoft Teams video conferencing available to participants and members of the public at <https://www.microsoft.com/en-us/microsoft-teams/join-a-meeting?rtc=1>, Meeting ID: 261 098 220 793, Passcode: MWWe6h; Dial-In Number 1-360-726-3322, Phone Conference ID: 400 882 054#.

Members Present: Liz Lewis, Chair
Sara Ketelsen
Representative Mia Gregerson
Treasurer Mike Pellicciotti
Bill Longbrake
David Nierenberg
George Zinn

Members Absent: Mary Pugh

Other Members Present: Tracy Guerin
Greg Markley

Others Present: Allyson Tucker, Chief Executive Officer
Chris Hanak, Chief Investment Officer
Kristi Bromley, Assistant Senior Investment Officer – Risk Management and Asset Allocation (RMAA)
Rhonda McNavish, Assistant Senior Investment Officer – Public Equity
Ada Chen, Investment Officer – Public Equity
Ashana Wenzel, Administrative Assistant

Tor Jernudd, Assistant Attorney General
Janet Becker-Wold, Callan

CALL TO ORDER

Chair Lewis called the meeting to order at 1:03 p.m. and took roll call. Tracy Guerin and Greg Markley attended as observers only and did not participate in the discussions.

ADOPTION OF MINUTES

**Chair Lewis moved to adopt the September 5, 2023, minutes.
Ms. Ketelsen seconded, and the motion carried unanimously.**

FIXED INCOME EDUCATION SESSION

Fixed Income Peer Review

**Presenters: Kristi Bromley, Assistant Senior Investment Officer – RMAA
Janet Becker-Wold, Callan**

Kristi Bromley introduced Janet Becker-Wold and explained that the education session was being presented as a result of a Board request to compare the WSIB's fixed income program against its peers.

The presentation of the Fixed Income Peer Review introduced the purpose and scope of the report noting that Callan evaluated the WSIB's retirement fixed income program against Callan's Core Plus Fixed Income and Public Fund Fixed Income peer groups and against the Bloomberg Aggregate Index and Bloomberg Universal Index. The evaluation included performance, standard deviation, tracking error, effective duration, quality distribution, sector allocation, and effective yield. The historical analyses went back 20 years prior to March 31, 2023, where data was available. It was noted that neither peer group is an ideal comparison for the WSIB's internally managed fixed income portfolio, which has different objectives, constraints, and guidelines from both peer group constituents and also noted was the significant fee advantage of the WSIB's program relative to the Core Plus peer group.

Performance versus both peer groups and both benchmarks was reviewed, with the WSIB's retirement fixed income program beating both the Aggregate and Universal indices over all cumulative time periods. The presentation compared the risk/return profile and excess return versus tracking error of the WSIB's portfolio against the Core Plus peer group. The up-market capture and down-market capture of the WSIB's retirement fixed income portfolio against both peer groups was compared, as were various risk statistics of the WSIB portfolio versus the Bloomberg Universal index. Discussion ensued regarding risk statistics, including information ratio and Sharpe ratio.

Characteristics including effective duration, effective yield, quality exposure, and relative sector exposure compared to the Bloomberg Universal Index was discussed, as was the portfolio's high yield exposure over time versus the Universal index. Janet Becker-Wold noted the WSIB fixed income portfolio met its return objective of outperforming the Universal Index over all cumulative time periods evaluated and the portfolio has shown compelling performance relative to peers. Portfolio returns and rankings can vary widely from year to year as a result of positioning including duration, sector choices, and security selection.

The Committee discussed the portfolio's relatively successful deviations from the benchmark, performance expectations going forward, and aggregate performance between duration and credit.

PUBLIC EQUITY EDUCATION SESSION

Basics and Modularity of Passive Investments

**Presenters: Rhonda McNavish, Assistant Senior Investment Officer – Public Equity
Ada Chen, Investment Officer – Public Equity**

Rhonda McNavish introduced the presentation stating that the current structure of the Comingled Trust Fund (CTF) is over 60 percent passively managed; passive management is the default position, with allocations to passive U.S. equities, passive developed ex-U.S. equities, and passive emerging markets equities. Active management is used in global and emerging markets equities. Staff believes the current public equity program structure is effective and appropriate. However, in line with challenging assumptions, staff is contemplating refinements to the current structure given the market environment. Key investment beliefs were reviewed and discussed.

The presentation discussed the differences between passive and active management, including investment goals, strategies, risks, buy or sell decisions, and fees. Management of passive benchmarks, choosing a passive benchmark, MSCI consultation process, and advantages and disadvantages of passive management were addressed. The presentation

examined emerging markets and global index concentration, the shift from active to passive management, market share of passive funds, and misperceptions and points of differentiation for passive managers.

Discussion ensued regarding active versus passive management.

Staff discussed the public equity paradox that active return is more important than ever but active return may become harder to identify, as well as staff's response through the revised procurement process and research of modularity in the public equity structure.

The presentation discussed the modularity of the passive investment structure. The public equity program's benchmark is the MSCI ACWI IMI Index. The building block approach to index construction which MSCI uses includes defining the equity universe for each market; determining the investable equity universe for each market, through inevitability screens; and determining the market capitalization size segments for each market. A hypothetical example was presented showing passive indexes can be divided into their individual country building blocks and broken down into size segment building blocks.

The Committee discussed the current active/passive ratio and expectations over time as markets change.

OTHER ITEMS

There was no further business to come before the Public Markets Committee, and the meeting adjourned at 1:22 p.m.