

WASHINGTON STATE INVESTMENT BOARD (WSIB) PASSIVE EQUITY INDEX MANAGEMENT SEARCH INSTRUCTION DOCUMENT

TYPE OF SERVICE PROVIDER SOUGHT

The focus of this search is to identify one or more passive equity index managers able to provide strategies for the broad spectrum of public equity index mandates identified herein. Such group must, in aggregate, be capable of managing the broad spectrum and substantial assets for which the WSIB employs passive management, although not every individual manager within the pool is required to be this broad. The WSIB expects that such a group could include a few passive investment managers, at least two of which should have substantial breadth and capacity for assets.

The potential types of passive equity index mandates include, but are not limited to, global, U.S., non-U.S., emerging markets, customized funds, factor or risk-based indices and underlying components of target-date funds. The equity index products may cover various asset classes, strategies and account types (e.g., lending, non-lending, taxable and tax managed) to meet the WSIB's requirements for defined-benefit, defined-contribution and non-qualified programs' market exposure. Such exposure is preferable through a separate account vehicle; however, the WSIB desires to have discretion to select a mutual fund or commingled fund structure for any equity index mandate. The WSIB will determine the particular benchmark and investment guidelines for each mandate required.

A full listing of the current passive mandates used by the WSIB is included in this document.

BACKGROUND

The WSIB is one of the largest institutional investors in the United States.

- 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: https://sib.wa.gov/docs/info/pue_opp.pdf

The chart below outlines the WSIB's current use of equity index funds as of June 30, 2024, by program type, program name, specific index, approximate assets, tax status, fund type and current account type (the Index Fund Table). Existing or future programs may include these funds or other equity index mandates.

PROGRAM TYPE	PROGRAM NAME	PASSIVE MANDATE	ASSETS APPROX.	TAX STATUS	FUND TYPE	CURRENT ACCOUNT TYPE
Defined Benefit	CTF	MSCI US IMI Gross	\$19,967 M	Tax Exempt	Qualified	Commingled
Defined Benefit	CTF	MSCI World ex US IMI	\$8,055 M	Tax Exempt	Qualified	Separate
Defined Benefit	CTF	MSCI EM IMI	\$808 M	Tax Exempt	Qualified	Commingled
Defined Contribution	Plans3, DCP, JRA	S&P 500	\$2,953 M	401a/457	Qualified	Commingled
Defined Contribution	Plans3, DCP, JRA	Russell 2000 Value	\$590 M	401a/457	Qualified	Commingled
Defined Contribution	Plans3, DCP, JRA	MSCI ACWI IMI	\$553 M	401a/457	Qualified	Commingled
Defined Contribution	Plans3, DCP, JRA	MSCI EM IMI	\$162 M	401a/457	Qualified	Commingled
Defined Contribution	TDF (sleeve)	S&P 500	\$2,391 M	401a/457	Qualified	Commingled
Defined Contribution	TDF (sleeve)	MSCI ACWI ex US IMI	\$2,263 M	401a/457	Qualified	Commingled
Insurance Fund	LNI	MSCI ACWI IMI w/ US Gross	\$1,294 M	Insurance Fund	Non-Qualified	Commingled
Insurance Fund	LNI	MSCI ACWI IMI w/ US Gross	\$1,720 M	Insurance Fund	Non-Qualified	Commingled
Insurance Fund	LNI	MSCI ACWI IMI w/ US Gross	\$604 M	Insurance Fund	Non-Qualified	Commingled
Schools Fund	Perm	MSCI World IMI w/ US Gross	\$566 M	Tax Exempt	Non-Qualified	Separate
Education Tuition Fund	GET	MSCI ACWI IMI w/ US Gross	\$768 M	529	Non-Qualified	Separate
Endowment Trust	DDEF	MSCI ACWI IMI w/ US Gross	\$5 M	Tax Exempt	Non-Qualified	Commingled
Scholarship Funds	WSOS	MSCI ACWI IMI ND	\$19 M	Tax Exempt	Non-Qualified	Commingled
Scholarship Funds	WSOS	MSCI ACWI IMI ND	\$6 M	Tax Exempt	Non-Qualified	Commingled
Scholarship Funds	WSOS	MSCI ACWI IMI ND	\$8 M	Tax Exempt	Non-Qualified	Commingled
Scholarship Funds	WSOS	MSCI ACWI IMI ND	> \$1 M	Tax Exempt	Non-Qualified	Commingled
Retirement Fund	VFFRO	MSCI ACWI IMI w/ US Gross	\$190 M	Tax Exempt	Non-Qualified	Commingled
Retirement Fund	VFFRO	MSCI ACWI IMI w/ US Gross	\$2.8 M	Tax Exempt	Non-Qualified	Commingled

KEY REQUIRED SERVICES

Full services and required reporting will be defined within the contract negotiations, but candidates are expected to be able to provide the following services:

- Passive equity index products capable of meeting the needs of the WSIB's programs. The returns of the index products should match, or closely track, the specified index return.
- Ability to offer a commingled fund or separate customized account with reporting 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 requested by the WSIB. Potential analysis may include but is not limited to analyses of benchmarks, mismatch risk between benchmarks, optimization of various indices to match a broader benchmark, tracking errors, and 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, be able to manage securities lending utilizing the cash collateral guidelines developed by the WSIB. These guidelines will be provided to candidates that have been determined to meet the minimum qualifications of this search document (see, "Description of Evaluation Process" below).
- For mandates which include U.S. equity, the WSIB must be allowed to exercise proxy voting rights (for the U.S. equity holdings) and responsibilities pursuant to the WSIB's guidelines for any separate account and strongly prefers to be able to exercise proxy voting rights in line with the proportionate share of securities invested in the collective/commingled fund(s). These guidelines will be provided to candidates that have been determined to meet the minimum qualifications of this search document (see, "Description of Evaluation Process" below).
- Participate in regular communications with WSIB staff.

MINIMUM QUALIFICATIONS

As of June 30, 2024 and throughout the solicitation process, candidates must satisfy all of the requirements as outlined below in order to be considered for the contract award:

- Must be able to provide passive equity management services for at least one of the investment products detailed in the Index Fund Table.
- Must be willing to act as a fiduciary when performing these services and certify in writing to that fact.
- 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 or alternate regulatory body.
- Must be GIPS Compliant for the subject investment product being offered.
- Key professionals and/or the organization must not have, nor could they potentially have, a material conflict with the WSIB or its consultants, and must certify to absence of such conflicts in writing and be willing to provide relevant documentation and information in this regard to the WSIB upon request.
- Must be willing to provide the WSIB transparency into all material aspects of the investment processes and mandates managed for the WSIB.
- Must have adequate fiduciary insurance coverage. At a minimum, each Candidate must provide proof of Errors and Omissions/Professional Liability Insurance with an aggregate limit of at least \$10 million.
- Must conduct an annual System and Organization Controls (SOC) 1, 2, or 3; SSAE 18; or ISAE 3402 audit. The WSIB will also consider candidates that have in place an operational control structure that will be evaluated by WSIB and judged to be a reasonable alternative.

- If the WSIB chooses to use a commingled fund vehicle, the candidate 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.
- For all insurance mandates the candidate must be able to provide security information, if required to do so.

DESIRABLE QUALIFICATIONS:

As of June 30, 2024 and throughout the solicitation process, the following characteristics are desirable:

- Provide a broad spectrum of passive products, covering all or most of the WSIB's current mandates.
- Provide passive equity index products and demonstrate the ability to create new and/or customized equity index products as well as provide products for use in both qualified retirement and non-qualified plans.
- Have a total of \$20 billion or more in equity indexed assets under management for institutional clients. The firm must have a total of \$10 billion or more of equity indexed assets under management for U.S tax-exempt institutional clients.
- Provide components underlying the specified index (e.g., MSCI World, MSCI US) which segment the market by capitalization, style and/or industry. For example, six components that represent large, mid- and small-cap; value, core and growth styles.
- Utilize full stock replication, stratified sampling or other optimized techniques, as well as futures and forwards for implementation of mandates. Portfolios will be primarily invested in long-only stocks.
- Have a track record of consistently matching or exceeding the specified benchmark for a variety of passive products, with minimal tracking error.
- Have at least five years of experience managing the equity index product(s) submitted.
- Demonstrated experience with large public funds such as the WSIB.
- Demonstrated ability to consistently produce minimal tracking error relative to the benchmark for the product(s) submitted.
- Provide ability to exit/redeem from collateral pools and index funds with daily liquidity.

UNDESIRABLE CHARACTERISTICS-NON-DISQUALIFYING:

As of June 30, 2024 or at any time throughout the solicitation process, the following characteristics are undesirable:

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

APPLYING FOR CONSIDERATION

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 these steps:

- Contact Dario Buechi of Callan LLC (Callan), at 415.274.3075; buechi@callan.com to obtain the necessary questionnaire for the submission of information into the consultant's database. In addition, all candidates are required to submit the attached Exhibit A (Fee Schedule) to Callan at the same time the data is submitted.
- If a potential candidate's relevant passive products are currently in Callan's database, the candidate must ensure that information is current and accurate. If not already in Callan's database, upload track records specific to the vehicles being proposed. Provide hyperlinks for these track records to Dario Buechi.
- In addition, candidates will need to ensure that the eVestment database is up to date with complete data as of June 30, 2024, and updated each quarter subsequently.
 - For database inquires candidates can email evestmentdata@nasdaq.com or call 866.408.3273

Relevant and current data must be in the databases no later than October 21, 2024, with quarterly data updated for the duration of the search.

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. NOTE: Depending on your browser and cache settings, you may have to delete your browser history in order to see the updated document.

DESCRIPTION OF EVALUATION PROCESS

Any and all information that is gathered from any source, including but not limited to electronic submittals; consultant candidate material, 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).

Initially, written responses to this search instruction document will be collected and reviewed by Callan, the WSIB's third-party consultant in this search. Callan's role will be limited to (1) determining if candidates meet the minimum criteria outlined above, and (2) preparing candidate materials at the direction of the WSIB. Written responses of candidates meeting minimum qualifications will then be reviewed by WSIB staff.

Material will be evaluated by WSIB staff, and eventually, the WSIB Board. During the evaluation process, WSIB reserves the right to request additional information or clarification from candidates. At the discretion of the WSIB, additional interviews may be requested of candidates. The candidate(s) selected to do so will be required to make a presentation to the WSIB Public Markets Committee for further consideration.

Further, the WSIB reserves the right, at its sole discretion, to reject, without penalty, any candidates. The final selection will be the candidate(s), which in the opinion of the WSIB, are the best fit for the WSIB and the State of Washington. The WSIB reserves the right: (i) not to select any particular 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 candidates if such action is considered by WSIB in its sole discretion to be in the best interests of WSIB.

ELIGIBILITY TO COMPETE

Any firm(s) that, either itself or through a parent company, subsidiary, or affiliate, are currently under contract to perform 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, where the main purpose of which is to hire firm(s) for consulting purposes.

CONTRACT

Successful candidates will be required to sign a WSIB contract that contains a number of provisions required by the laws of the State of Washington and/or WSIB practice. The full terms, conditions and approach to the contract will be based on a sample contract that will be provided during due diligence to candidates who progress to the later stages of the review process. Some of the high-level contractual requirements are as follows:

FIDUCIARY STATUS AND DUTIES

Any and all candidates selected to act as a manager must do so as a fiduciary. The contract will specify that the manager is a fiduciary and will perform duties under its contract as a fiduciary with a fiduciary standard of care to act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent expert investment professional, 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.

LIABILITY AND INDEMNIFICATION

The contract must also contain broad liability and indemnification protections for the WSIB. This will include language that the manager is liable to and will indemnify and hold the WSIB and the State of Washington harmless from all loss incurred, resulting from, or occurring due to negligence, willful misconduct, wrongful act or omission, breach of fiduciary duty, the failure to comply with the terms of the contract or applicable law, or any errors on the part of the manager in operating the account. Please note that the WSIB cannot accept “gross negligence” language and cannot provide indemnification.

GOVERNING LAW AND VENUE

The contract will be governed by the laws of the State of Washington and venue will be specified as only the Superior Court of the State of Washington, in, and for, Thurston County, located in Olympia, Washington. Please note that the WSIB will not agree to any other jurisdiction.

DATA POLICIES

The managers must comply with applicable state policies regarding IT, security, access, data protection, and privacy, for example Washington Technology Solutions [Policy SEC-08](#), that will be embodied in a data sharing agreement attached to and incorporated in the contract.

Candidates must be willing to accept these contractual requirements without change.

QUIET PERIOD

The WSIB’s quiet period requirements for its Board members are outlined in its [Service Provider Policy 2.00.230](#). Candidates must not discuss any matters pertaining to a procurement with a Board member, except during Board or Committee meetings. Candidates must not discuss their desire to seek business with the WSIB or the WSIB’s public equity search process with WSIB Board members. WSIB Board members are required to report manager contact referrals to staff.

Additionally, no contact regarding this procurement or the evaluation is permitted with any WSIB staff except as outlined in this document. All questions about the search and/or the process must be addressed to the Search Coordinator as per instructions at the end of this document. When in doubt, direct the communication to the Search Coordinator only.

Please note that any violation of the quiet period may disqualify the candidate from any further consideration.

PROTEST PROCESS

The WSIB is committed to ensuring a fair and open competitive process through this search. To that end, it will accept two types of procurement protests as further described below. Protests that do not follow these procedures shall not be considered. These protest procedures constitute the sole administrative remedy available to under this procurement.

The first procurement protest is for complaints asserting that the search unnecessarily restricts competition, the evaluation process is unfair or flawed, or the search requirements as stated prevent preparation of a meaningful response (“Complaint”). Complaints must be:

- In writing and signed by the complaining party or an authorized agent;
- Inclusive of all facts and arguments on which the complaining party is relying;
- Addressed to the Search Coordinator listed at the end of this document; and
- Received by the Search Coordinator no later than 3:00 p.m. Pacific Time five (5) business days prior to the date responses are due.

Filing a Complaint does not entitle the complaining party to an extension of time for submitting its response.

The second procurement protest is for managers that are not selected for recommendation who assert a matter of bias, discrimination, or conflict of interest on the part of an evaluator, or non-compliance with the procedures set forth in this document or applicable state policy requirements (“Protest”). Protests must be:

- Submitted by an organization that has submitted a timely and valid response to this procurement;
- In writing and signed by the protesting party or an authorized agent;
- Inclusive of all facts and arguments on which the protesting party is relying;
- Addressed to the Search Coordinator listed at the end of this document; and
- Received by the Search Coordinator no later than 3:00 p.m. Pacific Time five (5) business days after the organization received notice from the WSIB it was not selected for recommendation.

If a Complaint or Protest may affect the interest of any other manager(s), such manager(s) will be given an opportunity to submit its view and any relevant information on the protest to the Search Coordinator. Upon receipt of a Complaint or Protest, a protest officer will be appointed by the WSIB. The protest officer will be a neutral party who was not involved in the process to investigate and respond. The review is to ensure agency policy and procedures were followed, all requirements were met, and all managers were treated equally and fairly. The decision of the protest officer will be final and conclusive.

PUBLIC DISCLOSURE

Candidates are advised that the WSIB is a public agency of the State of Washington, and thus subject to the Washington Public Records Act, RCW 42.56. Records provided to the WSIB become its property and may be subject to public disclosure, though WSIB has some limited, strictly construed exemptions from such disclosure. Candidates wishing to claim portions of any materials submitted to the WSIB as confidential and exempt from public disclosure are advised to carefully mark such portions; however, only truly proprietary and confidential sections or portions should be marked as such. Materials marked entirely as confidential containing clearly non-proprietary information will not be treated as confidential by the WSIB. If the WSIB receives a public records request for materials submitted as part of a procurement, the practice is to, after the candidate has presented to the Public Markets Committee and hiring has been approved by the Board, send the candidate a redacted copy of the materials the WSIB intends to disclose, and allow the candidate the opportunity to raise additional confidentiality concerns before the WSIB sends the materials to the records requester; for the avoidance of doubt, the WSIB is only allowed to redact confidential information that is by law exempt from public disclosure.

In addition, WSIB Public Markets Committee and full Board meetings are open public meetings, and notice will be posted as required by the laws of the State of Washington. Any recommendations regarding hiring an investment manager will include a presentation in an open public meeting.

SMALL & DIVERSE BUSINESSES

The WSIB encourages small and diverse businesses to compete for and participate in state procurements. Small and diverse-owned or led managers are also encouraged to reach out to the Search Coordinator to identify any perceived barriers in the search process or resulting contract.

NON-DISCRIMINATION

During the term of a resulting investment management contract, managers shall not discriminate on the bases enumerated at RCW 49.60.530(3). Managers will be required to give written notice of this nondiscrimination requirement to any labor organizations with which a manager has a collective bargaining or other agreement. In addition, managers shall cooperate with any Washington state agency investigation regarding any allegation that such manager engaged in prohibited discrimination set forth in RCW 49.60.530(3).

WSIB CONTACT

The Search Coordinator is the primary point of contact for this procurement and will be the SOLE point of contact for any manager except as described in this document. Throughout the duration of this search, all communications are to be directed, in writing, to the contacts listed below.

Washington State Investment Board
2100 Evergreen Park SW
Olympia, WA 98504-0916
ATTN.: WSIB LRC Unit, Public Equity Index Search
E-MAIL: contracts@sib.wa.gov

Contact by candidate's staff or by anyone on behalf of the candidate with WSIB staff or Board members regarding this search and not previously authorized by this document or the Search Coordinator, may disqualify the candidate.