



**Tuesday, December 6, 2022
Audit Committee**

9:00 A.M.

**In Person at the Washington State Investment Board
2100 Evergreen Park Drive SW, Olympia, WA 98502
OR**

The link to join can be found at www.sib.wa.gov/meetings.html

1. Call to Order/Roll Call (9:00a)

2. Adoption of Minutes (9:00-9:05)

A. Adoption of the September 6, 2022, Minutes

3. External Audit (9:05-9:30)

A. Fiscal Year 2022 Independent Financial Auditor's Reports and WSIB Annual Report

4. Executive Session (9:30-9:40)

A. Discussion with Financial Statement Auditors

5. Internal Audit (9:40-10:20)

- A. Audit Recommendation Status Report
- B. Internal Audit Report – Fixed Income Investments
- C. Internal Audit Report – Real Estate Labor & Industries Portfolio
- D. Audit Plan Quarterly Status Report - Fiscal Year 2023

6. Break (10:20-10:30)

7. Management (10:30-11:15)

- A. Quarterly Investment Referral Report
- B. Enterprise Risk Management Annual Report

8. Corporate Governance (11:15-12:00)

A. Proxy Voting Policy and Asset Stewardship Updates

9. Other Items (12:00-12:05)

10. Adjourn (12:05p)

**WASHINGTON STATE INVESTMENT BOARD
Audit Committee Meeting Minutes
December 6, 2022**

The Audit Committee met in open public session via 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: 249 072 097 279, Passcode: FG7MYd; Dial-In Number 1-360-726-3322; Phone Conference ID: 249 045 475#.

Committee Members Present: Treasurer Mike Pellicciotti, Chair
Tracy Guerin
Joel Sacks
Sara Ketelsen
Liz Lewis
Bill Longbrake
George Zinn

Committee Members Absent: None

Also Present: Allyson Tucker, Chief Executive Officer (CEO)
Chris Hanak, Chief Investment Officer (CIO)
Kristina Taylor, Chief Financial Officer (CFO)
Curt Gavigan, Chief Operating Officer (COO)
Marie Steffen, Audit Director
Cala Risse, Investment Accounting and Administration
Director
Susan Iselin, Internal Auditor
Brian Shrader, Real Estate Operations Manager
Liz Smith, Enterprise Risk Management Committee Co-Chair
Fred Gjerstad, Enterprise Risk Management Committee Co-Chair
Bridget Murphy, Corporate Governance Officer
Stacy Conway, Executive Assistant
Lisa Devlin, Administrative Assistant

Brad Berls, Eide Bailly LLP
Abbie Belthoff, Eide Bailly LLP
Tor Jernudd, Attorney General's Office
Jesse Yoder, Attorney General's Office

CALL TO ORDER

Chair Pellicciotti called the meeting to order at 9:02 a.m. and took roll call. All Committee members listed as present were able to fully participate in the meeting.

ADOPTION OF THE SEPTEMBER 6, 2022, MINUTES

Chair Pellicciotti noted that there was a question regarding the motion made at the September 6, 2022, meeting relative to the Audit Director's salary increase. To ensure the action was recognized appropriately, he proposed an adjustment to the September 6, 2022, minutes for clarification purposes.

Chair Pellicciotti moved that the Audit Committee adopt the September 6, 2022, Audit Committee meeting minutes revised to include the 6 percent salary increase for the Audit Director. Ms. Guerin seconded, and the motion carried unanimously.

EXTERNAL AUDIT

Fiscal Year (FY) 2022 Independent Financial Auditor's Reports and WSIB Annual Report

Ms. Steffen introduced Ms. Risse to present an overview of the WSIB's Annual Report and financial statements for FY2022 and Mr. Berls and Ms. Belthoff of Eide Bailly to present the results of the WSIB's FY2022 Independent Auditor's Reports.

Ms. Risse shared background information on the WSIB's financial statements and noted that the financial statements are relied upon by agency stakeholders and reduce the overall audit burden across the state. She reviewed the composition of the Annual Report and thanked staff for their time and dedication in completing the report. The Annual Report will be made available on the WSIB's website once approved by the Board.

Mr. Berls and Ms. Belthoff presented the audit results of the seven sets of WSIB-prepared financial statements for FY2022. Mr. Berls discussed the audit process, noting that the audit was conducted remotely, and in-person site visits may re-commence in 2023. He stated that unmodified opinions were issued for each of the seven statements and that there were no internal control deficiencies or material weaknesses. Ms. Belthoff highlighted alternative investments as an area of audit emphasis and the results concluded that processes and controls were in place to determine fair valuation.

Discussion ensued regarding the peer reviews and external audits of Eide Bailly, best practices for addressing executive management succession planning and decision-making procedures, and best practices garnered from investors of similar size as the WSIB. When asked about the results of Eide Bailly's Public Company Auditing Oversight Board (PCAOB) audit, Mr. Berls stated that the firm is audited by PCAOB, and he emphasized that there are several organizations auditing or reviewing the firm's work on an ongoing basis.

[Mr. Zinn joined the meeting at 9:24 a.m.]

EXECUTIVE SESSION – EXTERNAL AUDIT

Chair Pellicciotti announced that the Committee would go into executive session to discuss the performance of public employees. The executive session was expected to last until approximately 9:41 a.m., at which time the Committee would reconvene in open session.

[The Committee went into executive session at 9:31 a.m.]

Discussion with Financial Statement Auditors

[The Committee reconvened in open session at 9:44 a.m.]

Chair Pellicciotti moved that the Audit Committee recommend the Board accept the Fiscal Year 2022 Independent Auditor’s Reports and approve the Fiscal Year 2022 WSIB Annual Report. Ms. Ketelsen seconded, and the motion carried unanimously.

INTERNAL AUDIT

Audit Recommendation Status Report

Ms. Steffen reported on one open audit recommendation relating to cash receipting. The recommendation’s status is “in progress” as mail duties have transitioned to the Operations Administrative Assistants. Internal Audit will verify the process is in place and report back to the Audit Committee at the next meeting.

Internal Audit Report – Fixed Income Investments

Ms. Iselin and Ms. Steffen presented the results of the Fixed Income Investments internal audit engagement. The audit focused on ongoing due diligence, portfolio management, and monitoring activities. Overall, the audit concluded that the WSIB has processes and controls in place over fixed income investments to ensure compliance with Board and Investment policies, trade activities are authorized, and duties are separated to safeguard assets. There were no reportable audit recommendations.

Discussion ensued regarding succession planning and foundational knowledge within the Fixed Income unit, regular reporting done by the unit on the portfolio, and potential benefit from utilizing an outside consultant when there is transition within the unit. Additional discussion ensued regarding the broker/dealer approval process and the standard qualities that the WSIB

looks for in broker/dealer relationships. Ms. Tucker noted that staff will evaluate the monitoring of the fixed income portfolio to determine whether additional third-party monitoring is prudent.

[Mr. Zinn left the meeting at 10:03 a.m.]

Internal Audit Report – Real Estate Labor & Industries (L&I) Portfolio

Ms. Steffen presented the results of the Real Estate L&I Portfolio internal audit consulting engagement. The engagement included a limited review of the processes and controls over investment due diligence, approval, and monitoring for the L&I real estate investment portfolio. Overall, the Real Estate unit has process and controls over the areas noted to ensure the real estate L&I portfolio complies with Board policies and procedures. The internal audit engagement provided management with improvements or enhancements for consideration as the program develops. Management plans to implement the suggestions in the coming months and requested additional consulting services from Internal Audit to review progress and provide feedback.

Discussion ensued regarding potential conflicts of interest relating to the portfolios that hold real estate investments and the mitigating factors considered.

Audit Plan Quarterly Status Report – FY2023

Ms. Steffen reported on the status of the FY2023 Audit Plan and external audit activity over the quarter. She noted that an audit assurance engagement for Contract Payments was added to the FY2023 Audit Plan. This addition was due to the identification of overpayments to a contractor, and the audit is intended to be targeted and not expected to have an impact on other engagements.

[The Committee recessed at 10:11 a.m. and reconvened at 10:21 a.m.]

MANAGEMENT

Investment Referral Quarterly Report

Ms. Tucker provided an overview of the quarter's investment referral report and reviewed the purpose of the report, referring to the underlying policy.

Ms. Tucker made clarifying comments with regard to Fixed Income broker/dealer selection requirements, explaining the WSIB's policy provisions.

Enterprise Risk Management Annual Report

Ms. Smith presented the Enterprise Risk Management (ERM) Annual Report. She reviewed the WSIB’s approach to risk management and its integration throughout all areas of the agency. She highlighted the agency’s systems of risk management, what ERM is and how it addresses and assesses risks, and common misunderstandings of ERM. She emphasized that all staff play a role in risk identification and the importance of having a risk-aware culture.

Ms. Smith outlined ERM’s integration in the Three Lines of Defense Model and Internal Audit’s role in ERM. She described the WSIB’s risk management oversight structure and composition of the ERM Committee. She reviewed 2022 ERM Committee activities, noting that staff retention and burnout, political risks, geopolitics, and vendor risks were areas of focus throughout the year. She then provided an overview of the Board’s adopted Risk Appetite Statements before presenting the ERM Committee’s 2022 risk assessment dashboard. She highlighted all items the ERM Committee rated above of the Risk Appetite Statements and all changes made to the dashboard, including the increases in the strategic and government environment sections.

Discussion ensued regarding the inflation risk rating and its implications for the management of investments, ERM’s process for prioritization of risks and its role as a discussion forum that formulates recommendations for executive management, and the use of ERM information as critical input in decision-making and strategic planning. Additional discussion ensued around managing governmental risks, the difference between state and federal governmental risks, the WSIB’s monitoring of governmental risks, the WSIB’s engagement with stakeholders and peer groups, other educational outreach activities, and the WSIB’s response to federal debt ceiling concerns.

[Ms. Lewis joined the meeting at 10:57 a.m.]

[Mr. Zinn joined the meeting at 11:08 a.m.]

CORPORATE GOVERNANCE

Proxy Voting Policy and Asset Stewardship Updates

Ms. Murphy presented proposed proxy voting policy updates, which focused on shareholder rights, diversity, and climate. The updates are incremental in nature, aligned with the WSIB’s Climate and Diversity, Equity, and Inclusion (DEI) Blueprints, and focused on meaningful environmental, social, and governance (ESG) disclosures as well as related governance structures.

Discussion ensued regarding the focus on dual class shares, the WSIB's deliberate proxy voting policy update pace, and future industry-wide ESG interest areas, including say-on-pay and net-zero requirements. Ms. Murphy noted that the WSIB will continue to take the incremental update approach, with the blueprints acting as a guide, and will continue working to align the ESG work across asset classes via the ESG Working Group and the ESG Data Convergence Initiative.

Ms. Murphy reviewed the Asset Stewardship initiatives that occurred during the prior year, highlighting agency aligned asset stewardship priorities, continued public company engagement, and an update to the global proxy voting policy. She reviewed the WSIB's letter writing activities and outcomes, highlighting the letter written to the Securities and Exchange Commission supporting consistent and investment-focused climate related disclosures and noting that the WSIB focuses outreach to items that can create the most impact.

Ms. Murphy presented the Asset Stewardship priorities for 2023, which are focused on alignment between the DEI and Climate blueprints and the proxy voting and engagement programs, an assessment of the proxy process and enhanced research on priority topics, and stewardship monitoring of public equity managers.

Discussion ensued regarding the rule released by the Department of Labor (DOL) allowing ESG considerations when making investment decisions and reiterating the fiduciary importance of proxy voting. Mr. Zinn noted that this rule does not change how the Board makes decisions, and Mr. Jernudd stated that the DOL rule can be influential, but it does not directly apply to the WSIB.

Chair Pellicciotti moved that the Audit Committee recommend the Board approve the proposed revisions to the Global Proxy Voting Policy 2.05.200. Mr. Sacks seconded, and the motion carried unanimously.

OTHER ITEMS

There was no further business, and the meeting adjourned at 11:28 a.m.