



**Thursday, September 15, 2022  
Board Meeting**

**Call to Order - 9:30 A.M.**

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**In-Person Attendance: Washington State Investment Board  
2100 Evergreen Park Drive SW, Olympia, WA 98502**

**The link to join online can be found at [www.sib.wa.gov/meetings.html](http://www.sib.wa.gov/meetings.html)**

**1. Call to Order/Roll Call (9:30a)**

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**2. Adoption of Minutes (9:30-9:35)**

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- A. Adoption of the June 16, 2022, meeting minutes.
- B. Adoption of the July 19-21, 2022, meeting minutes.

**3. Public Comment (9:35-9:45)**

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**4. Board Governance (9:45-9:55)**

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- A. Oath of Office
- B. Officer Elections
- C. 2023 Meeting Schedule

**5. CEO Report to the Board (9:55-10:15)**

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- A. CEO Report to the Board - July-September 2022

**6. Administrative Committee Report (10:15-10:20)**

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- A. 2021-2022 Board Conference and Education Attendance and 2022-2023 Approved Board Conference and Education List

**7. Audit Committee Report (10:20-10:25)**

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- A. Audit Committee Charter Policy 1.00.130

**8. Public Markets Committee Report (10:25-10:30)**

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- A. Global Equity Manager Recommendation

**9. Performance Reports (10:30-10:40)**

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- A. Quarterly Commingled Trust Fund (CTF) Performance Update

**10. Break (10:40-10:50)**

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**11. Board Governance Education (10:50-11:50)**

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- A. Lessons Learned from Poor Governance: A Case Study

**12. Other Items (11:50-11:55)**

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**13. Lunch (11:55-12:30)**

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**14. Executive Session: Administrative Committee Report continued (12:30-1:45)**

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A. Annual Succession Planning Update

B. Board Self-Evaluation

C. CEO Evaluation Discussion

D. Non-Voting Board Member Term Expirations

**15. Adjourn (1:45p)**

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**WASHINGTON STATE INVESTMENT BOARD  
Board Meeting Minutes  
September 15, 2022**

The Washington State Investment Board met in open public session at the office of the Washington State Investment Board at 2100 Evergreen Park Drive SW, Olympia, Washington and via Microsoft Teams video conferencing available to participants and members of the public at [https://teams.microsoft.com/l/meetup-join/19%3ameeting\\_OGVjYTNkOGMtMTY3YS00MTM5LWFIMmMtNmU5Y2IzMTI3YTk3%40thead.v2/0?context=%7b%22id%22%3a%2211d0e217-264e-400a-8ba0-57dcc127d72d%22%2c%22oid%22%3a%228fc4d9d4-af9d-4c7e-89f7-0987f5420086%22%7d](https://teams.microsoft.com/l/meetup-join/19%3ameeting_OGVjYTNkOGMtMTY3YS00MTM5LWFIMmMtNmU5Y2IzMTI3YTk3%40thead.v2/0?context=%7b%22id%22%3a%2211d0e217-264e-400a-8ba0-57dcc127d72d%22%2c%22oid%22%3a%228fc4d9d4-af9d-4c7e-89f7-0987f5420086%22%7d)

Members Present: Tracy Guerin  
Ada Healey  
Sara Ketelsen  
Judy Kuschel  
Liz Lewis  
Bill Longbrake  
Yona Makowski  
Greg Markley  
Senator Mark Mullet  
David Nierenberg  
Treasurer Mike Pellicciotti  
Mary Pugh  
Joel Sacks  
George Zinn

Members Absent: Representative Timm Ormsby

Also Present: Allyson Tucker, Chief Executive Officer  
Chris Hanak, Chief Investment Officer  
Liz Smith, Legal, Risk and Compliance Director  
Fletcher Wilson, Assistant Senior Investment Officer – Public Equity  
Stacy Conway, Executive Assistant

Tor Jernudd, Attorney General’s Office  
Tammie Nuber, Office of the State Treasurer  
Tiffany Reeves, Faegre Drinker  
Donna Albert  
Kristin Edmark

**CALL TO ORDER**

Chair Guerin called the meeting to order at 9:33 a.m. and took roll call; all Board members listed as present were able to fully participate in the meeting.

**ADOPTION OF MINUTES**

**Chair Guerin moved to adopt the June 16, 2022, meeting minutes.  
Senator Mullet seconded, and the motion carried unanimously.**

**Chair Guerin moved to adopt the July 19-21, 2022, meeting minutes.  
Ms. Makowski seconded, and the motion carried unanimously.**

**PUBLIC COMMENT**

Ms. Albert addressed the Board to voice her concerns regarding investment in fossil fuels, opining that these investments are undermining a livable future for beneficiaries and not in alignment with fiduciary duty. She asked the Board to consider how it can respond to the crisis within its systems.

Ms. Edmark addressed the Board expressed her concerns about the consequences of climate change and asked the Board to regard the effect of climate change in its investment decision-making process. She opined that the WSIB's investment in fossil fuels, combined with that of other investors, is delaying the transition to clean energy and hastens the consequences. She requested that the Board avoid new fossil fuel investments and decrease holdings in companies holding fossil fuels.

Ms. Tucker read into the record a written public comment received from Ms. Barbara Carey:

*Dear Members of the Washington State Investment Board,  
I am [a] retired state employee, and like all of you, I am very concerned  
about the future of our state and planet as well as the health of our state  
pension investments.*

*The Climate Safe Pensions Network study of 14 state pension funds, including  
WSIB, reported recently, "Coal, oil, and gas companies are underperforming  
the rest of the market, making investments in fossil fuels by public pension  
funds inherently risky. It is widely expected that the assets of many fossil fuel  
companies will eventually become stranded and stock values will plunge,  
jeopardizing the hard-earned retirement benefits of public employees and  
putting an additional burden on taxpayers and city and state budgets. Nearly  
30% of fossil fuel industry shares are held by pension funds."*

*From The Quiet Culprit: Pension Funds Bankrolling the Climate Crisis,  
[https://climatesafepensions.org/wp-content/uploads/2021/12/FINAL-CSPN-  
The-quiet-culprit-pensions-report-.pdf](https://climatesafepensions.org/wp-content/uploads/2021/12/FINAL-CSPN-The-quiet-culprit-pensions-report-.pdf)*

*As you know, the \$7 billion in direct fossil fuel investments under WSIB  
purview does not even include the less transparent fossil fuel investments,  
which are much larger! I don't know of any state employee or retiree who  
would be content with such a contribution to the increasingly urgent crises the  
earth is facing.*

*I urge the WSIB to take global warming and the climate crisis seriously for  
the financial well-being of your members. I agree with the admonition of the  
above report: "The fastest way for pensions to address climate change is to  
divest from their fossil fuel holdings and invest in just and equitable climate  
solutions."*

*I look forward to hearing how the WSIB is responding to the rapidly changing financial world, where fossil fuel investments have become an overly risky impediment to our financial well-being.*

*Thank you for your work on this urgent problem.*

**BOARD GOVERNANCE**

**Oath of Office – Assistant State Treasurer Tammie Nuber**

Chair Guerin asked Treasurer Pellicciotti to introduce Ms. Nuber. Treasurer Pellicciotti noted that Ms. Nuber was recently appointed as Assistant State Treasurer and as the Treasurer’s delegate to the Board should he be unable to participate. She was previously with the Department of Financial Institutions and before that a Chief Operating Officer for a financial institution in the Midwest.

Chair Guerin administered the Oath of Officer to Ms. Nuber and welcomed her to the Board.

Ms. Nuber addressed the Board, noting that her previous work experience compliments the work of the Board and helps with her understanding of the funds the WSIB manages.

**Officer Elections**

Chair Guerin called for nominations for Board Chair.

**Ms. Kuschel nominated Ms. Guerin to serve as Chair. Mr. Sacks seconded the nomination. There were no other nominations, and Ms. Guerin was declared Chair by unanimous vote of the Board.**

Chair Guerin called for nominations for Vice Chair.

**Chair Guerin nominated Mr. Markley to serve as Vice Chair. Ms. Makowski seconded the nomination. There were no other nominations, and Mr. Markley was declared Vice Chair by unanimous vote of the Board.**

**2023 Meeting Schedule**

Chair Guerin proposed the following 2023 Board meeting dates: February 16, April 20, June 15, July 11-13, September 21, November 16, and December 14-15. In addition, to allow adequate planning time, she proposed the following dates for the 2024 and 2025 July Board meetings: July 16-18, 2024, and July 15-17, 2025.

**Chair Guerin moved to adopt the 2023 meeting dates and the 2024 and 2025 Board planning meeting dates as proposed. Senator Mullet seconded the motion.**

Treasurer Pellicciotti stated that he would vote no due to a conflict with one of the dates proposed.

**The motion carried.**

**CEO REPORT TO THE BOARD**

Ms. Tucker reported that there are no meetings in October. The Private Markets Committee will meet virtually on November 3 and the Administrative Committee and Board will meet in person on November 17. She reminded the Board of the Chair’s request that members attend the Board meeting in person if possible. She noted the reopening of the Olympia office and the hybrid work schedule offered to staff. She commented on her participation on a panel at the National Association of State Retirement Administrators conference, meetings with Board members throughout the summer, and introductory meetings with legislators.

Ms. Tucker provided an update on the 2022 Strategic Plan initiatives, noting that two of the four major elements of the plan, the Diversity, Equity, and Inclusion (DEI) and Climate Blueprints, were addressed at the July Board meeting. Another major component of the plan was the return to office, which is underway and will be reported on in the future. The last item was the investment program annual plans, which is also on track. She discussed the agency’s enhanced human resource effort, including recruitment, engagement, return to office, and career development pathways, crediting the Human Resources team; the vision, mission, values project, which will be underway shortly; the approval of the supplemental budget request; and the submission of the biennial budget request to the Office of Financial Management (OFM).

Ms. Tucker announced the upcoming retirement of Chris Phillips at the end of October. She thanked Mr. Phillips for his work on behalf of the agency.

Mr. Nierenberg stated for the record the Board’s strong gratification for Mr. Phillips’ excellent work on behalf of this organization.

Chair Guerin and several Board members shared their comments of appreciation to Mr. Phillips’ for everything he has done for the agency and the Board and wished him the very best in his future retirement.

Mr. Phillips thanked the Institutional Relations staff for their partnership and the Board for their focus and direction.

Ms. Tucker introduced several new staff members: Raman Karbarwal, Assistant Senior Investment Officer – Tangible Assets; Carol Pratt, Investment Data Engineer; Ada Chen, Investment Officer – Public Equity; Matt Gay, Investment Data Engineer. She reported that Ms. Gao was promoted to Senior Investment Officer of Risk Management and Asset Allocation (RMAA) and Tammy Lee was promoted to Administrative Assistant 4 in the Investment Division.

**ADMINISTRATIVE COMMITTEE REPORT**

Chair Guerin reported that the Administrative Committee met earlier in the morning, prior to the Board meeting. There was one action item for the Board’s consideration: the adoption of the 2022-2023 Approved Board Conference and Education List.

**On behalf of the Administrative Committee, Chair Guerin moved that the Board adopt the 2022-2023 Approved Board Conference and Education list as proposed. Ms. Kuschel seconded the motion.**

The Board Education policy requires that the Board establish a list of approved conference and education opportunities for the following year. Many of the conference dates are not yet available; therefore, this list will be updated on a regular basis and posted to BoardDocs for reference. Board members are encouraged to participate in educational opportunities as time allows. Chair Guerin advised Board members to reach out to her or Ms. Tucker to discuss the opportunities in the list or any other opportunities. She reminded Board members that although these events are on the approved list, Board Chair approval is required for attendance at any conference and education events.

Discussion ensued regarding the expectation for attendance at external conference and education events and the value of attendance at the International Center for Pension Management Board Governance program for newer Board members.

**The motion carried unanimously.**

The Administrative Committee received the annual report of Board attendance at external conferences and internal and external educational opportunities, which is required by Board policy. She noted the strong attendance at Board and Committee meetings during the last year while meetings were remote and asked members to provide feedback on their virtual experience at today's first hybrid meeting.

The Committee also received the quarterly budget update from staff for Fiscal Year (FY) 2022. Staff reported that the appropriated budget closed FY2022 with a balance of \$4.9 million or 15.1 percent savings, and the non-appropriated budget closed FY2022 with a balance of \$126.5 million or 17.1 percent savings.

Staff also provided an update on the 2023-25 biennial appropriated budget. An error was made on the preparation of the request for 6 new FTEs. The correction resulted in an increase of \$234,000 to the amount approved by the Board on June 16, 2022. Staff will submit the corrected budget to OFM on September 16, 2022.

The Committee met in executive session for the annual succession planning discussion and the annual Board self-evaluation, along with discussion around the expiring terms of two non-voting board members and the CEO's upcoming evaluation. These items will be discussed further in today's Board meeting executive session.

#### **AUDIT COMMITTEE REPORT**

Treasurer Pellicciotti reported that the Audit Committee met on September 6 with a full agenda, including one action item for the Board's consideration.

**On behalf of the Audit Committee, Treasurer Pellicciotti moved that the Board approve the proposed revisions to the Audit Committee Charter Policy 1.00.130. Chair Guerin seconded the motion.**

As a result of a policy review by Internal Audit and WSIB management, the proposed revisions identify cybersecurity risk management as part of the Audit Committee's responsibilities and establishes that an annual review of cybersecurity-related topics be provided by staff to the Audit Committee. In addition, technical revisions, including an update of a staff title and minor grammatical edits, were made.

**The motion carried unanimously.**

Treasurer Pellicciotti relayed that the Committee received the results of internal audit's FY2022 Computer Assisted Auditing engagement. Staff concluded that, overall, vendor payments and payroll transactions were supported, valid, and in compliance with state regulations and policy, and in addition, access to the state's accounting system was appropriately administered to ensure assets are safeguarded.

The Committee reviewed the FY2022 Performance Measures and Quality Assurance Reporting for the Internal Audit Unit. The Unit met four out of five performance measures, and the Committee discussed audit coverage in the event planned audits are not completed as outlined in the Unit's annual Audit Plan. The Internal Audit Unit continues to "generally conform" with Internal Auditing Standards. The Committee received an overview of the Three Lines Model and the WSIB's risk controls and assurance coverage utilized to mitigate risks. Staff discussed the relationships between the governing body, management, and internal audit. In addition, staff discussed a specific internal example of the model and reviewed other assurance activities and functions performed by the Legal, Risk, and Compliance Unit.

Staff provided the Committee with a preview of draft proxy voting policy updates, including those relating to diversity, climate, and dual class shares, all three important to the Board. Staff reviewed historical updates to the proxy voting policy related to these themes and the process to implement the proposed changes in 2022. The proposed policy language changes will be presented to the Audit Committee at the December meeting.

In addition, the Committee received an update on the status of the FY2023 audit plan and prior audit recommendations; set the 2023 meeting schedule; received the quarterly investment referral report and a cybersecurity update; and reviewed and adjusted the Audit Director's compensation.

#### **PUBLIC MARKETS COMMITTEE REPORT**

Ms. Makowski reported that the Public Markets Committee also met on September 6, to consider the active global equity manager recommendation and set its 2023 meeting dates. Due to a lack of quorum, the Public Markets Committee was unable to take action on the active global equity manager recommendation. It was the consensus of those Committee members present that the recommendation be forwarded to the Board for approval.



**On behalf of the Public Markets Committee, Ms. Makowski moved that the Board select BLS Capital, Arrowstreet Capital LP, William Blair Investment Management, and Mawer Investment Management as active global equity managers for the Commingled Trust Fund, subject to continuing due diligence and final negotiation of terms and conditions. Mr. Markley seconded the motion.**

Ms. Makowski reminded the Board that staff launched a rebid of the Commingled Trust Fund's (CTF) active global equity program in December 2019. A subsequent recommendation was approved by the Board and implemented, with the understanding that additional future recommendations would be made as the due diligence on several remaining candidates had been postponed due to pandemic-related travel issues. After a review of the search process to assess if and how the remaining diligence could be completed in accordance with the high standards of the WSIB, staff formulated a plan to move forward with the search process and presented additional manager recommendations to the Public Markets Committee at its September 6 meeting. The Committee recommends BLS Capital, Arrowstreet Capital LP, William Blair Investment Management, and Mawer Investment Management as active global equity managers for the CTF. A transition to the approved investment recommendation is targeted for completion before year-end.

The Committee heard from each of the recommended managers, who discussed their firm's background, team, and investment philosophy.

BLS Capital is a predominantly employee-owned asset management firm based in Copenhagen, Denmark. The firm follows a consistent, quality-driven investment philosophy with a focus on high quality companies.

Arrowstreet Capital, an incumbent active global equity manager in the CTF, is entirely owned by the partners and headquartered in Boston Massachusetts. The firm has state-of-the-art proprietary models, embodies a culture of continual improvement, and has a platform to execute research at scale.

William Blair Investment Management is an incumbent active global equity manager in the CTF and is a 100 percent independent, staff-owned firm headquartered in Chicago, Illinois. William Blair has a sizable asset management business that follows a consistent quality/growth-oriented investment philosophy across many of the firm's equity strategies.

Mawer Investment Management is fully employee owned and based primarily in Calgary, Alberta. The firm applies a conservative approach to investing client portfolios balancing the trade-offs between their assessment of quality and intrinsic value. Mawer has a 99 percent client retention rate, with a culture of intellectual curiosity and entrepreneurship.

Discussion ensued around the slight increase in the number of global equity managers, the possibility of another firm to be recommended, the process by which terminations may take place, the investment recommendation including a slight increase in the passive allocation, and proxy voting.

**The motion carried unanimously.**

**PERFORMANCE REPORTS**

Mr. Hanak presented the CTF performance update for the second quarter of 2022. The CTF exhibited negative performance for second quarter of -3.97 percent and -12.55 percent for the passive benchmark and -5.9 percent for the Implementation Value Added benchmark. The CTF performance for the 1-, 3-, 5-, 10-, and 20-year periods remains positive. The fund has outperformed both benchmarks for all reported periods and continued to exhibit top decile performance against its peer group in all reported periods.

Mr. Hanak addressed market challenges, global tensions, increased inflation, increased target fed funds rate, falling GDP, and continued low unemployment. He detailed individual asset class returns and Labor and Industries portfolio returns, along with the drivers of performance.

Mr. Hanak noted that significant price movements in public equity and fixed income markets persist. Private asset values are also subject to these market forces; however, as valuations are lagged, the overall volatility of the CTF can appear lower. Due to the significant allocation to private assets, it is reasonable to expect CTF returns to react slower than peers with higher allocations to public markets in periods of both positive and negative returns and the expectation of better than average performance as markets decline and worse than average performance as they improve. He also addressed the impact on asset allocations versus target ranges and the WSIB’s policy flexibility for these situations.

Discussion ensued around the comparative performance of the WSIB as opposed to peers, the impact of the CTF portfolio construction with a large allocation to private markets on comparative returns, the process to determine whether portfolio rebalancing is required and implementation of rebalancing objectives, the flexibility of allocation policies to allow portfolios to remain outside of target ranges, the impact of increased real estate valuations on cash flow produced by the assets, the long-term nature of the real estate program, and the anticipated impact on performance due to rising inflation and interest rates on the real estate portfolio.

[The Board recessed at 10:59 a.m. and reconvened at 11:10 a.m.]

**BOARD GOVERNANCE EDUCATION**

**Lessons Learned from Poor Governance: A Case Study**

Ms. Smith introduced Ms. Reeves, explaining that today’s presentation was borne out of the discussion that the Board had with Ms. Reeves during its annual fiduciary education session at its June meeting.

Ms. Reeves discussed the interrelation of board governance practices and fiduciary duty. She explained that she was part of a team of consultants working with Funston Advisory Services to conduct a fiduciary performance audit of the case study system, and the presentation is based only on publicly available information. The views expressed are her own and not of Funston Advisory Services or any other entity.

Ms. Reeves discussed the importance of formal and accountable governance practices, the governance framework of vital functions, and the powers reserved framework. She discussed the contributing issues of the peer fund represented in the case study: poor governance, lack of transparency, politics, and a challenging board culture. She detailed the numerous challenges at the case study retirement system, including lack of clarity around powers reserved, a material calculation error resulting internal and external investigations, information overload, lack of transparency, and a lack of trust and civility, all of which led to the fallout, including public and legislative scrutiny, criminal and regulatory investigations, lawsuits, legal fees, resignations, succession challenges, and ongoing mistrust.

Ms. Reeves discussed the importance of trust, built through a governance structure that supports relationships and provides assurance. Trust is built slowly over time in small moments. Governance failures can erode trust quickly. The mistrust caused by poor governance practices at the case study peer fund was pervasive and toxic and will take the fund years if not decades to recover.

Ms. Reeves listed the audit recommendations for the case study peer fund, highlighting the top three: develop alignment and focus on setting policy and prudent delegation; improve timeliness and insightfulness of information; verify, then trust, and she described the implementation of each.

Discussion ensued regarding additional publicly available information available regarding the subject case study peer fund.

Ms. Reeves focused on powers reserved, noting the importance of having clarity around the authority of the board and the authority of staff; decision intelligence, staff and consultants assisting the board in making informed decisions; exception reporting and summarized policy implications for investment oversight with the ability to drill down for additional data as individual trustees see fit; and verify, then trust, by establishing a formal process for independent advice and reassurance. She closed her prepared remarks with the key takeaway of the presentation – good governance builds trust.

Discussion ensued regarding the dynamics between the case study's fund's senior leadership and its board, including the challenging dynamic of board members going straight to staff and bypassing the executive director; importance of established processes around board and staff interaction; clarity and formality around responsibilities and expectations of board and committee chairs and a strong board self-evaluation process; necessary components of a well-functioning board, including a culture that embraces audit and compliance and use of consultants; WSIB process of annual elections and appointed Committee chairs.

[The Board recessed at 12:15 p.m. and reconvened at 12:40 p.m.]

**EXECUTIVE SESSION**

**Chair Guerin announced that the Board would go into executive session to review the performance of public employees. The executive session was expected to last approximately 1:25, at which time the Board would reconvene in open session.**

[The Board went into executive session at 12:41 p.m.]

**Annual Succession Planning Update  
Board Self-Evaluation  
CEO Evaluation Discussion  
Non-Voting Board Member Term Expirations**

[The executive session was extended for an additional 10 minutes.]

[The Board reconvened in open session at 1:38 p.m.]

Chair Guerin thanked staff for their work in providing a successful hybrid meeting, noting that feedback received for improvements will be considered moving forward.

**ADJOURNMENT**

There were no other items to come before the Board, and the Board adjourned at 1:40 p.m.