



**Thursday, April 20, 2023
Board Meeting**

Call to Order - 9:30 A.M.

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

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

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

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

A. Adoption of the February 16, 2023, meeting minutes.

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

4. CEO Report to the Board (9:45-9:55)

A. CEO Report to the Board - March/April 2022

5. Audit Committee Report (9:55-10:00)

6. Public Markets Committee Report (10:00-10:05)

A. Socially Responsible Investment Manager Search Recommendation

7. Private Markets Committee Report (10:05-10:10)

A. Private Equity Investment Recommendation - TPG Asia VIII, L.P.

8. WSIB Employee Engagement Survey Outcomes (10:10-10:25)

A. WSIB Employee Engagement Survey Outcomes

9. Break (10:25-10:30)

10. Education Session (10:30-11:30)

A. U.S. Fiscal and Monetary Policy

11. Economically Targeted Investments (ETI) Annual Report (11:30-12:00)

A. Economically Targeted Investments (ETI) Annual Report & Presentation

12. Break (12:00-12:30)

13. Capital Market Assumptions (12:30-1:30)

A. Capital Market Assumptions

14. Other Items (1:30-1:35)

15. Executive Session - Succession Planning (1:35-1:50)

16. Adjourn (1:50p)

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WASHINGTON STATE INVESTMENT BOARD Board Meeting Minutes - CORRECTED April 20, 2023

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://www.microsoft.com/en-us/microsoft-teams/join-a-meeting?rtc=1>; Meeting ID: 248 398 008 957; Passcode: uWnark; Dial-In Telephone Number 1-360-726-3322; Phone Conference ID Number 370 847 882#. The meeting was also live-streamed and recorded by TVW.

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

Members Absent: Greg Markley
Senator Mark Mullet
Representative Timm Ormsby

Also Present: Allyson Tucker, Chief Executive Officer
Christopher Hanak, Chief Investment Officer
Bobby Humes, Human Resources Director
Carmen Matsumoto, Investment Officer – Private Equity
Bridget Murphy, Corporate Governance Officer
Li Gao, Senior Investment Officer – RMAA
Aileen Liu, Assistant Senior Investment Officer – RMAA
Chris Green, Assistant Senior Investment Officer - RMAA

Stacy Conway, Executive Assistant
Ashana Wenzel, Administrative Assistant
Tor Jernudd, Attorney General's Office
Dan Clifton, Strategas

CALL TO ORDER

Chair Guerin called the meeting to order at 9:30 a.m. and took roll call; all Board members listed as present were able to fully participate in the meeting. Chair Guerin joined the meeting virtually and requested that Mr. Sacks step in as Acting Chair should she have any technical issues.

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ADOPTION OF MINUTES

Chair Guerin moved to adopt the February 16, meeting minutes. Ms. Kuschel seconded, and the motion carried unanimously.

PUBLIC COMMENT

Mr. Connon, co-director of Stop the Money Pipeline, addressed the Board, discussing economic supply chains and the threat of the climate crisis leading to potential losses if serious climate mitigation actions are not undertaken. He opined on ways the WSIB can address climate risk, specifically in its proxy voting. He noted the WSIB's proxy voting record in 2022 and urged the WSIB to support climate-related shareholder resolutions this year and to update its proxy voting guidelines to ensure that moving forward the WSIB supports efforts that move companies toward the Paris Agreement goals.

Ms. Edmark addressed the Board regarding her concerns related to the urgency of the climate crisis. She discussed the impacts of methane gas leaks globally and opined that feedback loops are impacting the slowing of the climate crisis. She referenced an external report, noting the WSIB's investments in the banks that are funding new fossil fuel projects and commenting on the global harmful impacts of these projects. She addressed the WSIB's proxy voting record and asked the WSIB to seriously address climate.

Ms. Carey addressed the Board regarding climate concerns. She opined that there is a fiduciary conundrum, noting lagging returns over 10 years and questioned the opinion that divesting would cost too much, and funds would lose money. She discussed other public fund strategies and returns after divestment, referencing a BlackRock report, and she shared prospective impacts of divestment from fossil fuels. She asked that the WSIB develop a stepwise fossil free plan that maintains or increases returns.

Ms. Albert WSIB addressed the Board, commenting that the WSIB's proxy voting record is inconsistent with the Paris Accord's goals. She opined that the WSIB needs clear standards and criteria. Ms. Carey referenced a link to an *Integrity Matters* report that was included in her written materials [https://www.un.org/sites/un2.un.org/files/high-level_expert_group_n7b.pdf] and she shared highlights of the report. She stated that the information highlighted from the report is the basis for the call to divest from investment in fossil fuels and asked that the WSIB consider using the report recommendation in future environmental, social, and governance (ESG) and proxy voting considerations.

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Chair Guerin thanked those who provided public comment, noting that the WSIB takes its fiduciary duty and its mandate to maximize returns at a prudent level of risk seriously. Climate change poses material long-term risks for many of the WSIB's investments and is embedded throughout the ESG program, which includes asset stewardship, ESG integration, and advocacy. She reiterated that the Board and staff are firm believers in active engagement, having supported many environmental shareholder proposals in recent years, including requests for reductions in greenhouse gas emissions, enhanced climate lobbying disclosures, and robust climate reports. The Board will continue to approach these issues thoughtfully and responsibly, always acting in the best interests of beneficiaries.

Ms. Tucker reported that the WSIB received 21 written public comment submissions relating to climate concerns, primarily the WSIB's investment in fossil fuels with requests for divestment and proxy voting requests. One submission was received relating to labor concerns. Copies of the submissions are included in the Board materials. Written public comment was received from Ann Butler, Kirsten Edmark (2 submissions), Laurie Rubin, Peter Fels, Becca Kempton, Nancy Helget, Barbara Carey, Paula Lukaszek, Sally Keely, Donna Albert, Alec Connon, Jeanne Poirier, Frank Marre, Jean Maust, Michelle Mentzer, Virginia Weihs, Elyette Weinstein, Mary Paterson, Joanne Abelson, Chris Goelz, Jenna Manchester, Kelsey Nyland, Andrea Avni, and Lorie Lucky.

MARCH/APRIL CEO REPORT TO THE BOARD

Ms. Tucker reported that there are no Board and Committee meetings in May and relayed the dates of the June meetings. She reminded Board members of 3-day meeting in July. She reported on Seattle reopening and return to office events. She thanked Mr. Longbrake for providing a just-in-time staff education session around the failure of Silicon Valley Bank. She noted new hires and departures and four procurements quiet periods in place.

In response to Mr. Nierenberg's inquiry regarding the availability of a recording of Mr. Longbrake's presentation or potential to share it with the Board at its July meeting, Mr. Longbrake responded that the materials would not be relevant at that time.

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AUDIT COMMITTEE REPORT

Treasurer Pellicciotti reported that the Audit Committee met on March 9 with a full agenda. The Committee received the results of the Contract Payments internal audit engagement. Staff concluded that overall, there were processes and controls in place to assist with ensuring contracts with hourly rate payments were accurately paid according to contracted rates and complied with applicable policies to ensure the safeguarding of assets. There were two audit recommendations aimed to strengthen internal controls.

Treasurer Pellicciotti relayed that the Committee also received the results of the Personal Investments and Trading System internal audit engagement. Staff concluded that overall, there were processes and controls in place to manage the personal trading program and assist employees and Board members in complying with policies. There were four recommendations that would strengthen internal controls, improve documentation, and ensure compliance with policies. Two recommendations have been completed. Staff presented the Annual Investment Compliance Report, which included a review of investment compliance activities, gifts, and personal investments. The presentation highlighted information and updates regarding regulatory filing requirements and operational due diligence activities as well as the results of 2022 gift reporting analytics, personal trading pre-clearance procedures and 2022 statistics, and annual attestation compliance results.

Treasurer Pellicciotti also reported that the Committee had an opportunity to hear from Glass Lewis and ISS related to proxy voting. There were questions that came up during the session, specifically whether there is effective alignment between the votes taking place and Board policies and beliefs and to what extent there can be an opportunity for more manual engagement by Board staff related to some of those votes. He said a number of interesting questions were raised, and he looks forward to reporting back to the full Board regarding whether or not a full review of those proxy votes makes sense going forward.

Treasurer Pellicciotti noted that Public Equity staff found that overall U.S. managers voted proxies in compliance with investment policies and processes, but there is room for continued discussion as the Board reviews the issues to ensure there is effective alignment related to the Board beliefs and the 30,000 votes that are taking place.

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In conclusion, Treasurer Pellicciotti reported that the Committee reviewed the independence of the financial statement auditor; received an update on the status of prior audit recommendations, a review of the updates made to the Fiscal Year 2023 audit plan, and the quarterly investment referral report; and convened in executive session to complete the Audit Director performance evaluation.

PUBLIC MARKETS COMMITTEE REPORT

Ms. Makowski reported that the Public Markets Committee met on March 13, 2023, to consider the socially responsible investment manager recommendation

On behalf of the Public Markets Committee Ms. Makowski moved that the Board select the Sustainable Global Thematic strategy managed by AllianceBernstein as the Socially Responsible Investment option in the Defined Contribution and Savings Plan menus, subject to continuing due diligence and final negotiation of terms and conditions. Ms. Ketelsen seconded the motion.

Ms. Makowski explained that the contract for the Socially Responsible Investment, referred to as SRI, option in the Defined Contribution and Savings Plan menus is set to expire in June 2023. WSIB staff launched a competitive rebid of the SRI option in anticipation of this in April of last year. Prior to launching the rebid, and after discussion with the Public Markets Committee at its March 2022 meeting, staff expanded the search parameters to allow equity-only SRI strategies and environmentally focused funds to be considered alongside balanced SRI strategies. This expansion better reflects the evolution in approaches to responsible investing that has taken place over the past ten years, aligns with data on how Washington State members use the SRI option, and allows consideration of a more robust opportunity set of available strategies that might be considered socially responsible.

Staff conducted due diligence on the prospective strategies over the course of 2022 and into 2023. Staff and the Public Markets Committee recommend the Sustainable Global Thematic (SGT) strategy managed by AllianceBernstein. The SGT strategy is an equity-only SRI strategy, which represents a departure from the balanced composition of the current SRI fund. Low utilization and modest average allocations to the SRI option, that is, few members invest all their money in this option, are among the reasons that the search team is comfortable with the change in risk profile of a transition to an equity-only option.

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The AllianceBernstein team addressed the Committee, discussing the firm's background, team, culture, and commitment to diversity, equity, and inclusion and responsible investing. The SGT strategy seeks to achieve strong financial and social outcomes via three main elements: sustainable themes, ESG integration, and active ownership. The sustainable themes of the portfolio are climate, health, and empowerment which are informed by the United Nations Sustainable Development Goals. AllianceBernstein's thematic, top-down framework is supported by a rigorous, bottom-up research process that targets companies with superior growth and quality characteristics, strong ESG practices, and attractive risk/reward profiles. Ms. Makowski said the Committee was very impressed with the firm.

Chair Guerin noted that she was able to attend the Public Markets Committee presentation, and she is looking forward to being able to provide this investment option to retirement plan members.

Ms. Makowski expressed her concerns about changing investment options for members; however, she feels very confident in this choice and will rely on the Department of Retirement Services to communicate the changes effectively.

Chair Guerin noted that Senator Mullet was unable to attend the meeting. Per the Washington State Investment Board's Conflict of Interest and Recusal policy (2.00.101), he wanted to ensure the following recusal statement was read into the record for this meeting:

I, Senator Mullet, would like to note for the record that because I own shares of AllianceBernstein I have formally recused myself from any and all WSIB matters involving AllianceBernstein. As a part of this recusal, I have not been involved in any discussions or deliberations, will not be voting on the Committee's recommendation today, and have not had any communications with other Board members or WSIB staff as a part of this recommendation.

The motion carried unanimously.

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PRIVATE MARKETS COMMITTEE REPORT

Mr. Sacks reported that the Private Markets Committee met on April 6, 2023, to consider one Private Equity investment recommendation. The investment recommendation for the Board's consideration is TPG Asia VIII, L.P.

On behalf of the Private Markets Committee, Mr. Sacks moved that the Board invest up to \$150 million, plus fees and expenses, in TPG Asia VIII, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Ms. Makowski seconded the motion.

Mr. Sack explained that TPG Asia VIII, L.P. is a pan-Asian growth buyout and growth equity fund being raised by TPG Inc. and is expected to pursue growth buyouts of, and structured and opportunistic minority investments in, businesses across the Asian-Pacific region, primarily in Southeast Asia, India, Australia and New Zealand, Greater China, and South Korea. The Fund is expected to make approximately 20 equity investments across the group's four core sectors of healthcare; consumer demand growth; financial services; and technology, media, and telecommunications/new economy. The WSIB has had a 23-year partnership with TPG, having invested in 7 of TPG's flagship funds, in addition to 10 other TPG funds pursuing various strategies.

The recommendation is based in part on TPG's strong overall performance, global platform with a strong brand name, desirable portfolio fit, dedicated value-creation team, and other factors relevant to the recommendation.

The motion carried unanimously.

[Due to technical difficulties, Chair Guerin was unable to continue to chair the Board meeting and Mr. Sacks stepped in as Acting Chair.]

WSIB EMPLOYEE ENGAGEMENT OVERVIEW

Mr. Humes noted that employee engagement is a focus element of the WSIBs strategic plan in maintaining culture and building capacity. He presented an overview of the WSIB employee engagement survey outcomes, addressing engagement survey result highlights from the 2021 survey, planning efforts for 2022, and highlights of the resulting 2022 employee engagement survey results. He addressed the ongoing workforce projects,

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including effective communications; return to office flexibility; the Vision, Mission, Values project; and a focus on learning and development through LinkedIn Learning and RethinkCare. He discussed the key take-aways from the survey results.

Discussion ensued regarding key take-aways in exit interviews and recruitment efforts; contributing factors to lower than ideal scoring in 2021 survey; return to office flexibility; maintaining culture and continuing collaboration initiatives.

[The Board recessed at 10:28 a.m. and reconvened at 10:35 a.m.]

EDUCATION SESSION – U.S. FISCAL AND MONETARY POLICY

Mr. Clifton presented an educational session on the U.S. fiscal and monetary policy. He addressed the results of economic changes that are requiring action by U.S. policymakers and the potential implications for investors. He discussed inflation, interest rate increases, banking issues, tougher policies on China, deglobalization, low labor supply, long-term non-U.S. outflows, and opportunities in Vietnam and India and potentially Mexico as a counterweight to China.

Discussion ensued regarding the impact of artificial intelligence on economic markets and global relations; impacts of tightened bank lending, interest rate hikes, and erosion of support for the U.S. dollar; green energy development funded by the 2021 bi-partisan infrastructure bill providing unlimited tax credits; electric grid issues and development of more efficient ways to use fossil fuels prolonging the energy transition; energy transition investment considerations; and limitations in efforts to bring chip manufacturing back to the U.S.

ECONOMICALLY TARGETED INVESTMENTS (ETI) ANNUAL REPORT AND PRESENTATION

Ms. Matsumoto introduced the presentation, commenting on the creation and history of the ETI policy, noting the impact of investments made in Washington on the state's economy. She shared an overview of the results of the annual poll of WSIB general partners (GPs) requesting data regarding their Washington state transaction volume for the period October 1, 2021, to September 30, 2022, along with a comparison of the data over the last 5 years.

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She detailed the number and dollar value of Washington, Northwest, and U.S. private equity total transactions; the number and dollar value of corporate finance and venture capital investments in Washington state over the last year and over the last 10 years; Initial Public Offering activity for the state by dollar value and number of transactions over the last 10 years; the decrease in Special Purpose Acquisition Company transactions; the fair market value of WSIB's Washington-based investments across asset classes over the last 5 years; the growth of the WSIB's private equity assets over the last 10 years; and the fair market value of the WSIB's private equity portfolio. She noted that on a gross multiple basis, Washington-based investments slightly outperformed the total private equity portfolio.

Ms. Murphy discussed engagement with Washington-based publicly traded companies over the last year, noting the collaboration with the Thirty Percent Coalition, the Climate Action 100+, the CDP, and the Investor Coalition for Equal Votes, which the WSIB joined during the last year. She highlighted changes, including the adopt-a-company campaign suspension by the Thirty Percent Coalition and the upcoming removal of one of the Washington companies from the Climate Action 100+ list, which focuses on the world's largest emitters. She discussed the high-quality reporting received from the CDP, which gains information through surveys, and the addition of "plastics" to the survey.

Discussion ensued regarding the measurement of engagement success; changes in the Shareholder Proposal (SHP) process; resolutions that are counter to what one might think leading to inaccurate data tabulation; and potential engagement with Washington-based private companies in our GP portfolios.

Ms. Matsumoto shared the aims and results of the ETI policy and how staff plans to continue the program.

Discussion ensued regarding the contributing factors to the significant reduction in activity in 2022; the WSIB's approach as compared to the Alaska Permanent Fund, which has stopped its in-state investment program; characteristics of a successful program; and staff's consideration of ways to make the program as effective as it can be going forward.

[The Board recessed at 12:04 p.m. and reconvened at 12:37 p.m.]

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CAPITAL MARKET ASSUMPTIONS

Ms. Liu, Ms. Gao, and Mr. Green presented the 2023 recommended Capital Market Assumptions (CMAs) for the Board's consideration. They explained that the CMAs provide a reasonable central estimate of returns over the long term, as well as a likely range around the proposed return estimates via the standard deviation. The CMAs are the foundation for strategic asset allocation modeling for all funds managed by the Board, as well as to the State Actuary's assumed rate of return recommendation to the Pension Funding Council. The process of developing the CMAs hence is designed to be consistent over time with few changes, reflecting the Board's disciplined long-term outlook, and normally staff CMA recommendations will not change dramatically unless there is a sustainable fundamental change in the markets. The 2023 study includes an update on climate considerations and introduces a private credit CMA.

Ms. Liu and Mr. Green outlined the WSIB's process for and considerations in developing the CMAs, then discussed the CMAs for each asset class, highlighting any changes since 2021, as well as the expected return for the CTF and scenario analysis of portfolio performance in high and low growth and inflation environments. Based on the 2023 recommended CMAs and assuming WSIB's long-term strategic asset allocation target remains in place, the CTF is expected to return 7.0 percent over a 15-year time horizon. This aligns with the CTF's actuarial rate of return.

Discussion ensued regarding the work peers are doing in consideration of climate in CMAs; the consideration of climate change in economic risk analysis; climate considerations as an explicit single risk or reward of an asset class as opposed to risk that is attributable to the total portfolio; staff's continued work on the Climate Blueprint, specifically investigating the potential measurement of portfolio climate risk; inflation projections and the WSIB's ability to modify the CMA analysis if conditions change; 2-year cycle of the CMAs with continual review; the implication of cash and inflation at the same estimate in the short term and long term; the historical price to earnings (P/E) ratio and the longer time horizon considered in the WSIB analysis; the historical changes in the U.S. equity return projections; an outlier in the consultant data resulting in the private equity arithmetic return falling outside of the consultant range; the difference between the arithmetic return and the geometric return and the impact of volatility; reasoning behind the use of the arithmetic return when the WSIB considers a longer time horizon; the alignment of the proposal with the legislatively set long-term (50 year) geometric return assumption; and potential for a strategic

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discussion regarding continuing the excellent historical performance and culture of the WSIB.

Mr. Sacks moved that the Board approve the proposed 2023 capital market return, risk, and correlation assumptions as presented.

Ms. Makowski seconded, and the motion carried unanimously.

EXECUTIVE SESSION

Acting Chair Sacks announced that the Board would go into executive session to review the performance of public employees. The executive session was expected to last approximately 15 minutes, at which time the Board would reconvene in open session to adjourn.

[The Board went into executive session at 1:47 p.m.]

Succession Planning Discussion

[The Board reconvened in open session at 2:02 p.m.]

ADJOURNMENT

There were no other items to come before the Board, and the Board meeting adjourned at 2:02 p.m.